

URBAN HOMESTEADING AS A PROPOSED MEANS OF DEALING WITH
ABANDONED RESIDENTIAL HOUSING

A THESIS

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The Faculty of the Division of Graduate Studies

by

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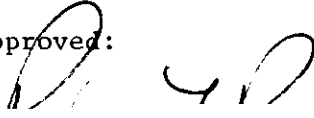
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URBAN HOMESTEADING AS A PROPOSED MEANS OF DEALING WITH
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CHAPTER I

INTRODUCTION

The purpose of this thesis is to analyze urban homesteading as a means of dealing with abandoned residential property and revitalizing deteriorated neighborhoods.

Residential abandonment, symptomatic of the final state of neighborhood decline, is the result of demographic and housing trends active within certain central city neighborhoods. The potential effectiveness of homesteading in stemming or reversing the process of decline will be the basis of evaluation.

Methodology

General information for this thesis was obtained through a review of pertinent literature and personal interviews with local and federal urban homesteading administrators. Specific information on operational homesteading programs was gathered primarily through an examination of grant applications submitted by the 23 cities participating in the federally-sponsored Urban Homesteading Demonstration Program. These grant applications, which contain program descriptions and operational procedures, are on file with the United States Department of Housing and Urban Development (H.U.D.) in Washington, D.C.

The cities participating in the demonstration program are listed in Table 1 below.

Table 1. Cities Participating in the Section 810
Urban Homesteading Demonstration Program,
Status as of May, 1977

City	Number of Properties Conveyed from H.U.D.	Value of H.U.D. Donated Housing Units
Atlanta, Georgia	84	\$975,117
Baltimore, Maryland	23	295,000
Boston, Massachusetts	3	320,000
Chicago, Illinois	44	659,000
Cincinnati, Ohio	11	190,000
Columbus, Ohio	32	332,000
Dallas, Texas	142	450,000
Decatur, Georgia	47	350,000
Freeport, New York	39	410,000
Gary, Indiana	56	332,000
Indianapolis, Indiana	86	408,305
Islip, New York	25	290,000
Jersey City, New Jersey	11	60,000
Kansas City, Missouri	23	300,000
Milwaukee, Wisconsin	36	378,150
Minneapolis, Minnesota	54	562,000
New York, New York	27	365,000
Oakland, California	48	500,000
Philadelphia, Pennsylvania	117	452,000
Rockford, Illinois	47	350,000
South Bend, Indiana	32	162,000
Tacoma, Washington	33	480,000
Wilmington, Delaware	35	350,000

For many of the cities participating in the Demonstration, the units conveyed from H.U.D. constituted only a small proportion of their total homesteading inventory. The majority of their units were properties acquired through tax foreclosure proceedings. Thus, program descriptions submitted to H.U.D. describe procedures for homesteading both locally acquired tax foreclosed properties and mortgage foreclosed units transferred from H.U.D.

The use of statistics listing the number of cities utilizing particular urban homesteading administrative and/or financing mechanisms has been avoided. Both the author and federal administrators at H.U.D.'s Office of Policy Development and Research feel that popularity bears little relationship to program quality or effectiveness.¹

The problem of residential abandonment is being viewed from the perspective of local governments which acquire the bulk of their urban homesteading inventories through tax foreclosure proceedings. Thus, this thesis focuses on the homesteading potential of one to four unit rental properties which have been abandoned as a result of neighborhood decline and disinvestment.

It is important to note that when multi-family dwellings are referred to, this should be taken to mean "conversion apartments" that were formerly single-family dwellings. When such units are homesteaded, they are converted back to their original single-family status. To date, only New York City has developed procedures for homesteading multi-family dwellings. An analysis of this concept, which involves a cooperative form of ownership, is beyond the scope of this thesis. The practicality of applying the urban homesteading concept to multi-family dwellings is a matter that needs further research.

A large number of single-family owner-occupied units were abandoned under the Federal Section 203 and 235 program. Under the provisions of the Section 810 Urban Homesteading Demonstration, a number of these properties were transferred to local governments and added to homesteading inventories. Although such properties constitute a very significant proportion of the homesteading inventory in some cities, an analysis of the causes of owner-occupied abandonment is beyond the scope of this thesis.

At this time, it is not known if owner-occupied abandonment associated with these federal programs was a result of poor administration, inadequate selection and orientation of participants, flaws in the concept of low income homeownership, or general economic conditions. More research is necessary to determine the precise causes of this problem and prevent its occurrence in the future.

For purposes of this thesis, the elements of representative locally administered urban homesteading programs will be evaluated upon the basis of their relative effectiveness as neighborhood revitalization tools.

Organization

This thesis will analyze the potential effectiveness of urban homesteading programs in restoring neighborhoods characterized by abandoned and deteriorating residential properties.

Chapter II is a discussion of the scope and nature of the abandonment problem. Residential abandonment is viewed as the terminal stage in the process of neighborhood decline. The deleterious effects

of abandonment upon the neighborhood and city will also be discussed.

Chapter III identifies potential options in meeting the problems posed by abandoned residential properties.

Chapter IV defines urban homesteading and discusses it as a general concept. The specific goals and objectives of federal and local programs are analyzed.

Chapter V is a detailed examination of alternative administrative, managerial, and financial components of urban homesteading programs. The potential contribution of these components to overall neighborhood revitalization efforts is the basis for the analysis.

Chapter VI will present conclusions regarding the relative effectiveness of alternative homesteading policies and procedures. Recommendations will also be provided.

CHAPTER II

RESIDENTIAL ABANDONMENT

This chapter will first discuss the scope of the residential abandonment problem. The process of neighborhood decline, which culminates with abandonment, will then be examined. The remainder of the chapter will define abandonment, identify the origins of the problem, and outline effects upon the community.

Scope of the Abandonment Problem

In the late 1960's, the abandonment of residential property began to gain recognition as an increasingly significant urban problem, particularly in the Northeastern and North Central regions of the country. Although no truly comprehensive national surveys have been conducted, one may gain some insight into the depth of the problem by an examination of statistics from individual cities.

New York City is estimated to contain almost 180,000 abandoned residential units. George Sternlieb, of Rutgers' Center for Urban Policy Research, testified before the United States Senate Committee on Banking and Currency that, between the years 1965 and 1970, New York lost approximately 50,000 units annually through abandonment. He estimated that almost five percent of the City's total housing stock had been abandoned.²

Other major cities find themselves faced with a similar problem. Of the nearly 2,800 tax sales conducted annually in the District of

Columbia, almost 1,800 are of abandoned buildings.³ Philadelphia has approximately 36,000 abandoned dwelling units;⁴ Wilmington, Delaware, somewhere between 1,500 and 2,000;⁵ Baltimore almost 5,000; and Detroit has an estimated 2,000 to 3,000.⁶

Moreover, the United States Department of Housing and Urban Development (HUD), largely as a result of the Section 235 and 203 program, holds title to or mortgages on almost 300,000 abandoned housing units.⁷ This places HUD in the embarrassing position of being the largest owner of abandoned and dilapidated properties in the nation.

Neighborhood Decline

Neighborhoods have been characterized in the literature as experiencing a life cycle ranging from "healthy-viable" through "unviable, heavily abandoned."⁸ Unfortunately, empirical data necessary to determine the causative agents in this process of neighborhood decline is painfully limited.

While there is disagreement over the causes of this process, there is abundant physical evidence that many neighborhoods do enter a state of physical decay.⁹ It is equally clear, however, upon the basis of such programs as Neighborhood Housing Services in Pittsburgh, that it is possible to reverse this process of decline.¹⁰

Upon the basis of the theoretical work now available, neighborhood decline may be generally described as occurring in three phases: (1) an in-migration of less affluent socio-economic groups, (2) financial disinvestment in the neighborhood's housing stock, and (3) abandonment.

In-Migration

Ahlbrandt and Brophy, in a recent examination of declining

neighborhoods on Pittsburgh's North Side, have adopted a theoretical framework in which they view neighborhoods as being in competition for households. Their basic premise is that: "Neighborhoods decline because they are no longer able to attract property owners who are interested in and have sufficient income to adequately maintain the housing."⁹

Historically, older American central-city neighborhoods have experienced difficulty competing with new and more fashionable developments constructed in peripheral areas.

Older homes generally require more extensive maintenance procedures to keep them at a highly desirable level. Replacement of the heating and electrical systems as well as major structural repairs may be necessary. Without periodic renovation, older housing units risk becoming functionally as well as technically obsolete in relation to more recently constructed units.

Roger Starr, Administrator of the New York City Housing and Development Administration writes:

Many one-hundred-year-old buildings still do provide good housing, but their present quality reflects large amounts of new capital that was put into them over the years to repair defects, to modernize, and to stretch their useful life. Probably, fifty or sixty years should be the longest term over which housing can be expected to survive without substantial reinvestment.¹¹

When necessary maintenance and renovation schedules on individual units are no longer strictly adhered to, the quality of the neighborhood's housing stock inexorably deteriorates. The original inhabitants, usually of upper or middle income status, migrate toward newer and more fashionable neighborhoods. They are replaced by less affluent households

often lacking the financial capability to properly maintain the units.

As the socio-economic level of incoming residents declines, an increasing proportion of the housing stock is transferred to the rental sector. Landlords, faced with increasing operating expenses and a tenancy unwilling or unable to pay additional rent, may partition buildings into additional units. While this may generate additional revenue in the short run, the overcrowding of living units and associated facilities leads to additional structural deterioration which further accelerates the need for maintenance. During this phase, city services, notably sanitation, fail to keep pace with the increasing population density and the whole neighborhood begins to take on a "seedy" look.

Disinvestment

As lower income groups migrate in and physical deterioration becomes more pronounced, financial institutions lose confidence in the future of the neighborhood. At this time, property owners begin to experience difficulty in obtaining the refinancing necessary to maintain or improve the amenity value of their buildings.

Visible deterioration may often influence a loan officer's perception of resale values within a given neighborhood. This, of course, will hinder reinvestment in the neighborhood.

His responsibility to the savers who have confided to him leads him to sniff for possible changes that may undermine or restrict universal demand for the residential collateral. Unfortunately, the fears of mortgage officers tend to be self-fulfilling. When lenders fear to lend in an area, their fears are often confirmed because the shutting off of new capital resources discourages purchasers, and this in turn discourages costly maintenance and rehabilitation. It is sometimes difficult to decide which came first, the actual deterioration of an area or the fear on the part of mortgage lenders that the area was deteriorating.¹²

It is also important to realize that the income of area residents

plan a very important role in neighborhood deterioration. In declining neighborhoods, even if conventional or subsidized financing is available, landlords realize that their present tenancy is largely unable to meet the increased rent levels that would result.

Thus, as a neighborhood enters the final stages of decline, buildings are utilized to their fullest potential with little if any reinvestment. This process, whereby an owner extracts all the revenue possible from a building without any reinvestment, is known as disinvestment.

As disinvestment proceeds, the entire neighborhood quickly declines. With buildings in a rapidly advancing state of deterioration and mortgage financing largely unavailable, the real estate market, for all practical purposes, ceases to exist.

Abandonment

During the final stage of neighborhood decline, population density begins to decrease as households with any choice, whatsoever, leave the neighborhood. The heads of remaining households are often unemployed or marginally employed. Many are also elderly and forced to live on fixed incomes. In short, the families left behind are existing at the lowest socio-economic level.¹³ Traditionally, such families have been plagued by social pathologies such as: alcoholism, drug addiction, delinquency, and violent crime.

A concentration of very low income and "problem families" in an already deteriorated area completely destroys the neighborhood's ability to effectively compete for residents. Confronted with the marginal incomes of the present tenancy and a generally low demand for housing within the neighborhood, reinvestment in rental property is minimal.

It is under these conditions that residential abandonment begins to appear.

There is some limited evidence which indicates that the poor property management practices of small investor owners plays an important role in disinvestment which may end with abandonment. Contrary to popular belief, owners of substandard rental dwellings are seldom cynical investors who consciously set out to "milk" their properties. It has been pointed out by Stegman that undermaintenance is an irrational act which indicates a lack of sophistication on the part of the investor.¹⁴

Sternlieb, in a study of tenement landlords in Newark, found that over 75 percent of the sample studied held six or less properties.¹⁵ The typical small investor-owner was found to be a local tradesman or factory worker with little understanding of mortgage financing or repair companies.¹⁶ Poor management techniques often led to physical deterioration and decreased revenues. Grigsby and Rosenberg, in a study of substandard housing in Baltimore, reached a similar conclusion.¹⁷

In summation, there is some evidence that central city rental properties, mismanaged by small investor-owners, are likely to fall into a state of serious disrepair. Eventually, deterioration may reach a point where the breakdown of a heating system or pressure from local housing code officials forces the landlord to make a major reinvestment or dispose of the property. In such a situation, a landlord unable to find a buyer at any price may simply abandon the parcel as an economic liability. Such properties eventually come into the possession of local governments through tax foreclosure proceedings.

Definition of Abandonment

This section will examine three definitions of residential abandonment in an effort to arrive at a precise thesis definition of the phenomenon. These three definitions, all formulated for research projects on residential abandonment, were developed by: (1) the National Urban League, (2) Linton, Miels and Coston, and (3) Sternlieb and Burchell.

National Urban League

In 1971, the Center for Community Change and the National Urban League undertook a major nationwide study of residential abandonment. Seven major cities were surveyed in an effort to determine both the scope and cause of the problem.

For survey purposes, the League declared a building to be abandoned when:

A landlord no longer provides services to an occupied building and allows taxes and mortgages to go unpaid....On the other hand, when a building is temporarily unoccupied as to be demolished for another socially or economically useful purpose, it cannot be considered finally abandoned.¹⁸

The League believes that when operating costs and other financial liabilities associated with ownership of a building exceed any present or potential economic gains, the structure will be abandoned. Thus, when expenses begin exceeding potential revenues, owners will terminate utility services and refuse to make tax or mortgage payments. In essence, the owner disavows all responsibility for the structure in a final effort to cut losses.

The League's survey methodology consisted of an examination of

municipal records combined with interviews of local planners, elected officials, real estate brokers, and members of the lending community.

Linton, Miels and Coston

In a second national survey, also conducted in 1971, Linton, Miels and Coston (LM & C) examined residential abandonment in four major regional cities. They began with the premise that standing abandoned residential buildings were a "waste of housing resources." For purposes of the survey, any vacant building no longer capable of providing a residential "shelter function" was considered to be abandoned.

Their survey methodology, a windshield survey of target neighborhoods, used the physical condition of the building as the indicator of abandonment. Buildings were considered to be abandoned if they were unoccupied and either (1) vandalized, (2) boarded up, (3) seriously deteriorated, or (4) had unmaintained grounds.¹⁹

Unlike the Urban League, LM & C considered vacant units with the potential for conversion into alternative uses to be still abandoned. Abandonment was studied within the context of its effect upon the supply of low and moderate income housing. A residential unit converted to an alternative land use would have an adverse impact upon this supply.

Sternlieb and Burchell

In 1973, Sternlieb and Burchell, with the aid of an Urban Renewal Demonstration Grant, conducted an in-depth study of abandonment in Newark, New Jersey. In the Newark study, abandonment was defined as a condition in which a structure "has been removed from the housing stock for no apparent alternative profitable reason and for which no succeeding use occurs on the land."²⁰

While the two previous definitions concerned themselves solely with standing structures, Sternlieb and Burchell included buildings that had been demolished because of an owner's fear of continued economic loss. In the Newark study, abandonment was looked upon as the final product of a debilitated housing market incapable of regeneration.

Thesis Definition

An abandoned building cannot be looked upon as isolated or independent phenomenon. Rather, it is a stage in the complex process of neighborhood decline. It is symptomatic of the final stage of decline when mortgage lending activity and real estate sales transactions have completely ceased.

Abandonment is almost exclusively a problem of the rental sector. When owners of such properties are faced with increasing operating and maintenance expenses coupled with stable or declining rent receipts, the result is a negative cash flow. In such a situation, the present tenants are generally unable or unwilling to pay rent increases that would allow the landlord to operate at a profit.

A landlord wishing to retain or attract tenants capable of paying adequate rents must increase the amenity value of his buildings. Such improvements would generally necessitate refinancing. However, the physical deterioration found in declining neighborhoods makes it unlikely that:

1. A financial institution would accept such buildings as security for rehabilitation loans; or
2. That financially stable tenants could be attracted back to decaying neighborhoods even if individual buildings were rehabilitated.

Unable to obtain refinancing for rehabilitation or to sell such properties, landlords reject all responsibility for structures that have evolved into economic liabilities.

Residential abandonment, in the sense that this thesis deals with the problem, concerns only those buildings which have been abandoned due to social and economic factors present in declining neighborhoods. For purposes of this thesis, structures vacated because of an inability to meet operating and maintenance expenses or an ability to secure rehabilitation financing are considered to be abandoned.

Not all mature residential neighborhoods experience physical deterioration and abandonment. The Battery, in Charlestown, South Carolina, for example, has maintained an attractive residential atmosphere since Colonial times. There are, however, several specific housing and demographic trends which are conducive to abandonment.

Trends Conducive to Abandonment

Residential abandonment is almost never a city-wide phenomenon. Rather, it is confined to central city neighborhoods that have reached the most advanced state of decline.

Not all major cities, however, have significant abandonment problems in their declining neighborhoods. The core of the problem seems to be concentrated in the older cities of the Northeast and North Central regions. There seems to be a correlation between the presence of certain housing and demographic trends active in these cities and the existence of abandonment problems.²¹

In 1971, the National Urban League found that six of the seven cities they studied were experiencing residential abandonment problems.

These six cities - Cleveland, Chicago, Detroit, Hoboken, New York, and St. Louis - shared the following characteristics: (1) a decline in housing starts and population, (2) an increasing percentage of non-whites, and (3) a high percentage of residential structures over 30 years of age.

Decline in Housing Starts and Population

At the conclusion of the Second World War, both the federal government and private lending institutions, acting in concert, encouraged the development of the outer fringes of metropolitan areas. This trend in suburban development is continuing. During the years 1965 through 1970, almost 67 percent of all housing units constructed within SMSA's were cited outside of central cities.²²

While new construction may be necessary to effect a general improvement in housing quality, very little is being done to improve or even maintain housing in existing central city neighborhoods. The Urban Land Institute estimates that only 102,600 central city units were renovated between the years 1968 and 1975.²³ This figure includes approximately 48,000 units rehabilitated under the Federal Section 312 Subsidized Loan Program.²⁴ These renovation figures are quite insignificant when compared with the over seven million new units constructed within metropolitan areas during this period. A lack of renovation activity has caused the amenity value and, hence, the relative desirability of central city neighborhoods to decline in relation to areas of more recent construction.

Classical urban land use theory, typified by the work of Parker, Burgess and Hoyt, holds that residential populations segregate themselves by income and social class. While there is considerable disagreement over

Table 2. Demographic and Housing Trends for Cities Surveyed in Urban League Residential Abandonment Study.

City	Population SMSA		Population Central City		Percent Non-White Central City		Percent Central City Housing Stock Over 30 Years Old	
	1950	1970	1950	1970	1950	1970	1950	1970
Atlanta	671,979	1,373,425	331,314	487,553	36.6	51.3	37.7	30.3
Chicago	5,495,364	6,894,000	3,620,962	3,325,263	14.1	32.0	77.4	66.6
Cleveland	1,465,511	2,043,939	914,808	750,903	16.2	38.0	53.6	73.4
Detroit	3,016,197	4,161,660	1,849,568	1,492,914	16.4	44.0	40.5	61.8
Hoboken	647,437	597,091	50,676	45,559	1.5	5.0	N/A	84.6
New York	9,555,943	11,448,480	7,891,957	7,798,757	9.8	23.0	68.3	62.1
St. Louis	1,681,281	2,332,425	856,796	607,718	18.0	41.0	79.1	73.8

Source: U.S. Bureau of the Census, U.S. Census of Housing 1960, Vol. I, States and Small Areas, Part I: United States Summary, U.S. Government Printing Office, Washington, D.C., 1963, Table 17.

U.S. Bureau of the Census, U.S. Census of Housing 1970, Vol. I, Housing Characteristics of States, Cities and Counties, Part I: United States Summary, U.S. Government Printing Office, Washington, D.C., 1972, Table 39.

precise spatial patterns, it is agreed that upper income groups gravitate toward newer units encompassing the latest fashions in housing. The units vacated by these movers are then reoccupied by lower income groups.²⁵

These same forces, first described by Parker and Burgess in the 1920's are still operational today; with one important difference. In the Nineteenth and early Twentieth Centuries, homes abandoned by upwardly mobile movers were rapidly taken by waves of European immigrants and later by Blacks from the rural South.

In recent years, however, the migration to metropolitan areas has slowed dramatically. During the years 1970 through 1973, the population of non-metropolitan areas increased by 4.3 percent while SMSA's only grew at a rate of 2.8 percent.²⁶

Even more important than declines in absolute numbers is the fact that those who remain in central cities are increasingly from the lowest economic stratum. In 1974, almost 32 percent of central city residents earned less than \$5,000 per year as compared with just over 24 percent of those in the balance of SMSA's.²⁷

The continuing out-migration of upper income groups, coupled with a decrease in in-migration, has resulted in a slackening demand for central city housing. This decreasing demand has resulted in high vacancy rates and increased difficulty in obtaining rents sufficient to properly maintain already marginal housing units. Under these circumstances, residential abandonment is likely to occur.

In their 1971 survey the Urban League reported that six of their seven survey cities were beset with serious residential abandonment problems. As may be seen in Table 2, these six cities all experienced

central city population declines. Atlanta, the only city not having such difficulties, registered a 32 percent increase in population between the years 1950 and 1960. It should be noted that subsequent to this survey, Atlanta did experience abandonment problems with owner-occupied units. These difficulties, however, were generally associated with the Federal Section 203 and 235 housing assistance program and not a result of neighborhood decline.

If the decline of central city neighborhoods is to cease, such areas must somehow regain their competitive edge. That is, overall environmental quality must improve to the degree that central cities are again able to attract stable middle income residents.

Increasing Percentage of Non-Whites

As the middle class flees the central city, an increasing proportion of the population that remains is composed of Blacks and other non-white minorities.

In 1960, approximately 16.5 percent of the population of places with 50,000 or more inhabitants was composed of non-white minorities. By 1970 this percentage had increased to 20.3 percent. In a number of major cities--Atlanta, Baltimore, Gary, Newark, New Orleans, and Washington--non-whites now constitute either a majority or near majority of the population.

In this society, the term non-white is still largely synonymous with lower income.²⁸ In 1975, the Census Bureau reported that the median income of Black families was almost 36 percent below that of all families.²⁹ Moreover, the percentage of Black families defined as poor was almost twice that of White families.³⁰

Thus, central cities are increasingly populated by a group financially less able to adequately maintain residential property. Under these circumstances, physical deterioration and abandonment are much more likely to occur.

High Percentage of Aged Structures

The six cities that the Urban League found to be experiencing abandonment problems all contain a high percentage of buildings over 30 years of age. In these six problem cities, the percentage of aged structures ranges from just over 62 percent in New York to almost 84 percent in Hoboken. Nationally, just under 41 percent of central city housing units are over 30 years of age. In Atlanta, the only survey city not experiencing abandonment problems, aged buildings account for just over 30 percent of the total inventory.

As a building ages, significant expenditures for maintenance and renovation are generally necessary. Such expenditures would include repairs to the heating and plumbing systems, replacement of roofs and gutters, and the installation of modern kitchen facilities. These costs must be reflected in rent levels or in the amount an owner is willing and able to reinvest in the unit.

Overcrowding, indifferent maintenance practices and a less financially able tenancy have a debilitating effect upon individual buildings and the overall neighborhood environment. Further deterioration and eventual abandonment are real possibilities.

While aging buildings, high percentages of non-whites, and a decline in housing starts and population are contributing factors in the abandonment process, they do not guarantee the presence of a problem.

Yet ACTION-Housing, a Pittsburgh based research organization, found residential abandonment "limited to a few areas of some of the older river communities."³¹ Brophy reports that a strong commitment by local government and lending institutions is largely responsible.³²

Effects of Abandoned Residential Property

Experiences in several cities have demonstrated that abandoned buildings can have a debilitating effect upon central city neighborhoods. This section will examine five of these effects: (1) crime rates, (2) number of fires, (3) tax revenues, (4) confidence in central city neighborhoods, and (5) the supply of basic housing stock.

Crime Rates

Observation and study have revealed that residential abandonment and high crime rates are found within the same geographic areas. This is not to imply that abandonment causes crime. Rather, social pathologies, such as crime, are more common among lower income groups which are forced to inhabit neighborhoods in the most advanced stages of decline.

The presence of abandoned buildings, however, is also a factor in explaining these high crime rates. Sternlieb and Burchell, who undertook an in-depth study of residential abandonment in Newark, write:

The high level of crime occurring in certain areas of the city to some extent may be viewed in terms of crime committed in abandoned parcels. Care must be taken, however, not to draw casual relationships between specific types of crime and abandoned buildings. Vacant parcels may not cause crime, but rather provide an opportunity for its occurrence. They serve as facilitating locations as well as inspiration.³³

Sternlieb and Burchell reported that there were 3, 162 abandoned buildings in Newark. An analysis of police records indicated that 546

of these structures, over 17 percent of the total, experienced at least one incident of police activity in 1971. Moreover, 386 buildings, 12 percent of the total, accounted for two or more such incidents during the same year.³⁴

This same Newark study revealed that almost four percent of all major crimes committed in 1971 occurred within abandoned buildings. This included a significant number of violent crimes against persons: 20 murders, 15 rapes and almost 150 cases of assault and battery.³⁵

As an area gains a reputation as a dangerous or "bad neighborhood," its desirability as a living environment is definitely decreased. Under such circumstances, the ability of individual housing units to command adequate rents is made much more difficult. As operating and maintenance expenses exceed revenues, abandonment is likely to occur.

Number of Fires

The Newark Fire Department, which undertook a random sample of 82 abandoned buildings, found that between the years 1964 and 1971, 19 of these buildings had at least one fire and 9 had two to five fires. In 17 of these cases, arson was suspected.³⁶

Similarly, in 1969, the Boston Fire Department reported that 18 percent of all structural fires in the city occurred in vacant buildings.³⁷ A study by the Department showed that a majority of these fires were started by children playing or transients attempting to keep warm during the winter.

Fires started in vacant buildings are unlikely to be immediately detected. In neighborhoods composed primarily of frame structures, such fires can easily develop into conflagrations capable of engulfing entire

blocks. Sternlieb and Burchell reported that during the first nine months of 1972, there were 28 fire-related deaths in Newark. Fifteen of these deaths were directly attributable to fires in vacant buildings or fires which started in such buildings.³⁸

Tax Revenues

When a building enters the later stages of decline, operating expenses may begin to exceed revenues. If the tenants are unable to pay additional rents and potential buyers are not forthcoming, the landlord will begin his "end game." In an effort to obtain the last measure of profit from a building, maintenance expenditures will be severely curtailed and the payment of property taxes stopped. Neighborhoods with an increasing percentage of tax delinquent properties are usually on the edge of extensive abandonment.³⁹

In cities where abandonment is a major problem, unpaid taxes on abandoned properties can amount to considerable sums. In Newark, outstanding tax liens increased from under \$900,000 in the year 1960, to almost \$6 million in 1970. By 1970, the city was collecting just under 88 cents on every property tax dollar owed. This compared with an average collection rate of just over 94 cents on the dollar for New Jersey as a whole.⁴⁰

It is only possible in a few states to hold property owners personally liable for failure to pay property taxes. Most state statutes stipulate that unpaid property taxes are not personal obligations but only liens against real property.⁴¹

This lost tax revenue necessitates either cutbacks in municipal services or increases in the millage rate. An increase in the millage

rate may precipitate additional tax delinquencies and discourage redevelopment or new construction within the city.

Confidence in Central City Neighborhoods

An abandoned building is a symbol that a neighborhood is no longer a desirable place to live. Abandoned structures are indicative of a very soft real estate market. Property owners are reluctant to reinvest in improvements when they feel there is little likelihood of recouping their expenditures. Financial institutions also look with askance on abandonment plagued neighborhoods in terms of security for rehabilitation or mortgage loans.

Ahlbrandt and Brophy, writing of declining neighborhoods on Pittsburgh's North Side, state:

Biases of the lending institutions toward the neighborhood under consideration may influence their financing decisions. The appraised value may be affected by the appraiser's general perception of the neighborhood. Or, the lending officer confronted with a marginal buyer, a marginal structure and a marginal neighborhood may refuse to make a loan he would otherwise make if the structure were located in a less risky neighborhood.⁴²

Under such circumstances, lenders have little confidence that neighborhood property values will appreciate or even remain stable. The direction of the neighborhood is viewed as a continuing downward spiral.

Supply of Basic Housing Stock

The abandonment of housing units further decreases the housing choices of the very poorest segment of the community. In a study of abandonment in St. Louis, Linton, Miels and Coston found that abandoned units and vacant marketable units in the Montgomery-Hyde Park Neighborhood exceeded 30 percent of the available stock.⁴³ This was at a time when St. Louis had a need for an estimated 13,000 standard

low-rent units.⁴⁴

Unless residential abandonment is offset by new construction, the results are higher rents and overcrowding in the low and moderate rental housing sub-market.

CHAPTER III

MEETING THE PROBLEM OF ABANDONMENT

When an owner makes a decision to abandon a structure, he rejects all further responsibility for the building. Such a rejection would, of course, include a refusal to pay property taxes and utility charges for sewer or water service. Under such circumstances, most abandoned buildings eventually fall into the possession of local governments through tax foreclosure proceedings.

The municipality thus becomes a reluctant landlord who collects no taxes but must, nevertheless, provide police and fire protection and make assurances that the building does not become a health or safety hazard.

Options in Dealing with Abandonment

In analyzing options for dealing with abandoned buildings, it is necessary to remember that this thesis focuses on severely deteriorated rental units which have been abandoned as a result of neighborhood decline. Such units, while structurally sound, are generally in an abandoned state of disrepair and considered poor security for rehabilitation loans.

Municipal governments have four basic options in dealing with abandoned residential properties. The alternatives are as follows:

1. Sale of the property in "as is" condition on the open market.
2. Rehabilitation of the structure for subsequent resale on the conventional real estate market.
3. Demolition of the structure and sale of the vacant lot.

4. Turning the property over to urban homesteaders willing to rehabilitate the property and reside on the premise for a specified period of time.

As Is Sales Program

An "as is" sales program would seem to be the most cost effective way for a municipality to dispose of abandoned housing units acquired through tax foreclosure proceedings. However, H.U.D.'s experience with an "as is" sales program for mortgage foreclosed properties seems to indicate this may not be a viable option for local governments.

An "as is" sales program has considerable merit as a means of disposing of foreclosed properties located in relatively sound and improving neighborhoods. Conventional financing is generally available and such units can be rehabilitated at reasonable cost. Difficulties arise, however, when such a program is used to dispose of deteriorated units located in marginal neighborhoods. The federal "as is" sales policy is now under attack by Ralph Nader's Housing Research Group and local officials in Portland and Chicago. A 1977 report by Chicago's National People's Action Group states that:

H.U.D. should be selling rehabilitated housing rather than as is properties. Often, unrealistic prices set on properties by H.U.D. officials cause them to remain vacant for months before the price is brought down and the buildings are sold....Even when sales are made....speculators often do not rehabilitate the houses and let them remain vacant. H.U.D. has a responsibility to sell houses in a repaired state.⁴⁵

Chicago officials, convinced of the adverse impact such sales were having on local neighborhood preservation programs, pressured H.U.D. into banning "as is" sales within the city. Housing in need of substantial rehabilitation is now either demolished, added to the city's urban

homesteading inventory or placed in the mayor's rehabilitation program.⁴⁶

Experience has shown that abandoned units acquired by local governments through tax foreclosure are generally in an advanced state of deterioration. Largely because of lengthy legal procedures attendant upon tax foreclosure proceedings, abandoned buildings remain vacant for years.⁴⁷ During this period they are often stripped of all plumbing fixtures and copper piping. The general condition of the building and the deterioration of the neighborhood make conventional financing almost impossible to obtain.

Under such circumstances, abandoned buildings actually have a negative market value. In their present condition, such buildings are uninhabitable and incapable of generating any revenue. Nevertheless, the owners of such structures are still liable for property taxes, periodic assessments and insurance premiums. This is precisely the situation the previous owners found themselves in when they abandoned the buildings as economic liabilities. In the absence of promises of substantial financial assistance, abandoned buildings cannot be marketed as residential properties.

Public Rehabilitation and Resale

A second alternative method of disposing of abandoned and deteriorated properties would be rehabilitation by a public authority for subsequent resale on the conventional market.

The federal experience in rehabilitating F.H.A. foreclosed properties is instructive for local governments contemplating such a program. Mary Berry, author of a H.U.D. study on the problem of abandoned housing, estimates that it takes the Department an average of

\$5,200 to prepare a repossessed single family dwelling for resale.⁴⁸

After such a sale, which takes between two and five years, H.U.D. losses are approximately \$5,000 per unit when the sale price is subtracted from what the F.H.A. paid the mortgage holder of the property.⁴⁹

The length of the resale period is of critical importance to local governments considering a program to rehabilitate and resell abandoned properties. Experiences in New York and other large Northeastern cities have shown that vandals can completely destroy unattended vacant buildings in a matter of weeks.⁵⁰ In this short period of time, doors and windows can be knocked out, paint sprayed mischievously, bathroom and kitchen fixtures removed, and interior wiring and fixtures stripped.

Even if the property can be protected from vandals and sold at the break-even point or better, a public rehabilitation program is an inefficient use of limited financial resources. Expenses for the rehabilitation work and attendant administrative costs would tie up general fund or community development dollars for the duration of the resale period, perhaps up to five years.

Because of high development costs and a lengthy resale period, a public rehabilitation and resale program is of doubtful value. A public rehabilitation program, however, may have merit if the units are rehabilitated and immediately rented to low and moderate income families. If such a rehabilitation program were coupled with the Federal Section 8 rent subsidy program, the public authority would be assured of sufficient rents to adequately maintain the units. Such a program would also insure that low income families are not displaced from designated housing rehabilitation areas.

Demolition

A third alternative is demolition of the existing structures and resale of the vacant lots. This is often an alternative for dealing with structurally unsound buildings that have little potential for economic rehabilitation. Such buildings, which may have cracks in foundations or bulging exterior walls, have rehabilitation costs beyond any realistic resale value.

A well-planned spot demolition program, which will eliminate unsafe structures and increase open space, can significantly enhance the amenity value of a neighborhood. Such cleared parcels may be converted into "mini-parks" or sold to adjacent property owners as side yards. Decreasing the population density by expanding open space can create a more suburban atmosphere within central city neighborhoods. This could aid in increasing the attractiveness of such areas to young couples with children and a need for recreation space.

A key element in many central city rehabilitation programs is the attraction and retention of young middle income families.⁵¹ Such families have both the interest and financial resources necessary to personally rehabilitate and maintain their individual housing units.

However, an indiscriminate spot demolition program, in the absence of a plan for reuse, can have a very negative impact upon the neighborhood environment. Small and isolated empty lots, situated in the midst of steadily decaying neighborhoods, are virtually unmarketable as residential sites. Such lots, which frequently serve as convenient dumping grounds, further advertise the undesirability of the neighborhood.

In summation, spot demolition can have very important place in any

neighborhood conservation or revitalization plan. If the bulk of the housing stock is structurally sound, a spot demolition program can selectively prune out unrehabilitatable and dangerous units. Demolition, however, is not the ultimate answer in dealing with all abandoned properties.

Urban Homesteading

A fourth alternative would be to add abandoned properties to an urban homesteading inventory. Urban homesteading is a concept whereby municipalities "sell" abandoned residential units for nominal sums to households willing to rehabilitate them and reside on the premises for a specified period of time.

Urban homesteading involves more than selling abandoned units to families willing to rehabilitate them. A successful program requires a sophisticated administrative framework and extensive support system.

Moreover, a homesteading program can have little impact by itself. Rather, it must function as part of a total program aimed at revitalizing an entire neighborhood. In the introduction to their study of residential abandonment, Linton, Miels and Coston write:

Limited abandonment of properties has always occurred in American cities; the unique characteristics of the current trend in abandonment are concentration and contagion. These characteristics are directly related to the milieu that is the neighborhood...Our work on this project has convinced us that since abandonment is primarily a neighborhood phenomenon, immediate attention must be given to the neighborhood; at the same time, efforts must be made at a city-wide and metropolitan level.⁵²

Residential abandonment is a symptom of neighborhood decline. Thus, merely dealing with abandoned buildings, while ignoring the more basic problem of neighborhood decline, is not likely to prove successful in the long run. It is felt that homesteading can be most effective if

operated in conjunction with programs intended to revitalize the entire neighborhood. Such programs would include: strict housing code enforcement, financial assistance for owners of non-abandoned buildings, the improvement of public facilities, and the demolition of unsafe or economically unrehabilitatable structures.

A theoretical comprehensive treatment program is outlined in Table 3. As can be seen from the table, urban homesteading is envisioned as one element within a comprehensive neighborhood revitalization framework. Homesteading's purpose, within a general revitalization effort, is the rehabilitation of structurally sound but severely deteriorated abandoned buildings.

Material presented in Chapter IV will show that the costs of rehabilitating severely deteriorated homes can be quite significant. It is only through a comprehensive program to eliminate physical deterioration in the neighborhood and upgrade property values that homesteaders can hope to recoup their investment in subsequent resales.

Table 3. Comprehensive Neighborhood Treatment Program

Property Status	Treatment
<u>Abandoned Buildings</u>	
Structurally sound, extensive rehabilitation necessary.	Add to urban homesteading inventory.
Structurally sound, can be rehabilitated at moderate cost.	Sale in "as is" condition on open market.
Structurally unsound and/or not economically rehabilitable.	Demolition of buildings and sale of lots to adjacent property owners.
<u>Non-Abandoned Buildings</u>	
Deteriorated rental units.	Code enforcement followed by loan guarantees and rent subsidies which guarantee rents adequate to maintain the units (Section 8 program).
Deteriorated owner-occupied units inhabited by moderate income families.	Low interest rate loan and grant program.
Deteriorated owner-occupied units inhabited by low income families.	Encourage relocation to subsidized rental housing.
<u>Public Facilities</u>	
Deteriorated sidewalks, few trees, broken street lights, etc.	New curbs and sidewalks, tree planting, new street furniture.
Evidence of trash and garbage in vacant lots and along streets and alleys.	Clean up campaign and more frequent garbage collection.

CHAPTER IV

URBAN HOMESTEADING

In this chapter the history of urban homesteading beginning with the Homestead Act of 1862 will be discussed. Then the relationship of the current Federal Urban Homesteading Demonstration with locally initiated efforts will be described. Finally, the specific goals of urban homesteading will be explained.

Background of Urban Homesteading

The exchange of publicly owned land for services deemed to be in the public interest is not a new concept. The original Homestead Act of 1862 granted 160 acres of land, without cost, to all individuals or families willing to cultivate and reside on the property for a period of five years. The dual purpose of this Act was to give landless settlers a stake in the nation and to encourage the settlement of the then hostile western frontier.

With this last purpose in mind, Congress also used offers of public land to stimulate the growth of highways, canals, and railroads. Through railroad grant programs, which began in 1850 with a 2.5 million acre land grant to the Illinois Central Railroad, the Department of the Interior eventually disposed of over 132 million acres.⁵³

Homesteading in the 1970's

Proponents of urban homesteading view blighted central cities as the "frontier of the 70's." Joseph E. Coleman, Chairman of the

Philadelphia Homestead Board, writes:

Parcels of land with abandoned structures add up to a sizeable acreage, and constitute a high percentage of the total land area of (major) cities. Not only are these areas surrounding these structures blighted, but they are sparsely inhabited and economically unproductive. Thus in a very real sense these areas represent our Nation's NEW FRONTIERS...In 1862 the Congress of the United States enacted the Federal Homestead Act. Under this Act, the federal government gave land, on our then frontiers, free to citizens who would settle on the land and cultivate it...(this was) an effort to develop our Frontiers, thereby expanding, safeguarding, and protecting the very heart of our Nation....Waste and desolate land was turned into productive and revenue-producing areas....Perhaps an adoption or modification of this government-people venture is a possible answer to developing our Nation's present Frontiers. URBAN HOMESTEADING could be that adoption (sic).⁵⁴

Urban homesteading, like the 1862 Act it is modeled upon, is not a "free" or "give away" program. The participant must agree to completely rehabilitate an abandoned structure, either through personal financing and labor or a Section 312 low interest rate loan, and then reside in the unit for a specified period of time.

There is a very real element of risk in investing in a boarded-up home located in a decaying inner-city neighborhood. The homesteader is gambling that municipal authorities and neighborhood residents, working in concert, will be able to revitalize the entire neighborhood. Only if the surrounding homes and neighborhood facilities are significantly upgraded can the homesteader hope to recoup his or her investment in any subsequent resale.

By venturing personal financial resources and physical labor or "sweat equity," homesteaders are performing a valuable service in reversing neighborhood decline and restoring abandoned properties to tax paying status. Eventual ownership of the property is the reward offered.

In May, 1971, Wilmington, Delaware, became the first city in the

nation to enact an "Urban Homestead Act." Wilmington is typical of many cities in the Northeastern and North Central regions of the United States. During the 20 year period from 1950 through 1970, the city's population fell from over 110,400 to under 80,400, a net decline of over 27 percent. City officials estimated that approximately 1,750 buildings had been abandoned.⁵⁵

In August, 1973, city officials held a drawing for the first 10 homestead properties. The program received a good deal of national publicity, and Wilmington had over 300 inquiries from other municipalities. Within a year, Philadelphia, Baltimore and Washington, D.C. enacted urban homesteading ordinances. The concept quickly caught the popular imagination. Washington, for example, received over 3,000 applications for its first 14 houses.⁵⁶

Federal Demonstration Program

Federal participation began in May, 1975, when H.U.D. announced that it was launching an Urban Homesteading Demonstration Program under the aegis of Section 810 of the Housing and Community Development Act of 1974. This section will discuss: (1) the reason for the program, (2) the objective of the program, and (3) the scope of the program.

Reason for the Program. The federal homesteading effort was prompted by alarm over reports that there were an estimated 300,000 abandoned residential properties in the United States.⁵⁷ In addition to these units, H.U.D. owned an estimated 77,000 deteriorated single family properties acquired as a result of F.H.A. mortgage foreclosures under the Section 235 Home Ownership Subsidy Program.⁵⁷

Under the Section 235 (Existing Home) and 203(b) program, large numbers of families were sold improperly inspected and dilapidated homes. House and Home reported that in New York City alone, forty individuals and nine corporations were indicted as a result of "widely excessive appraisals on properties insured by the F.H.A."⁵⁹

When major repairs, such as a new roof or heating system became necessary, many program participants found their incomes to be inadequate. After the unit became uninhabitable, they simply moved out and defaulted on the mortgage.

After H.U.D. assumed possession of these properties, the Federal Treasury was forced to pay all property taxes and assessments due on these units.⁶⁰ These financial considerations were a prime impetus to H.U.D.'s search for a means of divesting itself of some of these properties.

The Section 810 Urban Homesteading Demonstration was one such means. Under the terms of the program, H.U.D. agreed to transfer approximately 1,000 of these foreclosed properties to cities agreeing to develop "A coordinated approach toward neighborhood improvement through the homestead program and the upgrading of community services and facilities."⁶¹

Objective. The stated objective of the program is to "test the workability of the homesteading concept as a preservation and stabilization tool in a range of carefully chosen declining neighborhoods..."⁶² Urban Homesteading is thus viewed as a potential means of upgrading or at least stemming decline within neighborhoods.

A major impediment to many local governments in developing urban homesteading programs has been the difficulty in acquiring abandoned properties through time consuming tax foreclosure proceedings. An early homesteading program in Milwaukee, for example, was only able to acquire six suitable units during the initial year of its operation.⁶³

By providing immediate access to the H.U.D. inventory, the federal government felt cities could quickly develop urban homesteading administrative mechanisms. After property acquisition procedures were refined, the administrative expertise gained under the Demonstration could then be used in homesteading tax foreclosed properties.

In order to mirror conditions in abandonment plagued neighborhoods as closely as possible, virtually all homestead units allocated under the Demonstration were in target neighborhoods. A research document prepared for the Office of Policy Development and Research states:

The federal urban homesteading concept, then, involves neighborhood preservation. The program is not intended as a scattered-site housing program but rather as a preservation program within a specified target area.⁶⁴

Scope. During the period July, 1976-May, 1977, the nationwide allocation of Section 810 units only totaled 1,045 units.⁶⁵ The distribution of units ranged from a high of 142 units in Dallas to three in Boston. The median allocation figure was 38 units.

In some cities, such as Atlanta, the Section 810 allocation constituted the entire homesteading inventory. However, in major Northeastern cities, with urban homesteading programs predating the Federal Demonstration, the Section 810 allocation merely augmented a much larger locally acquired urban homesteading inventory.

Baltimore, for example, homesteaded a total of 450 buildings as of November, 1977.⁶⁶ The city's Section 810 allocation of 23 units constituted only five percent of this total. In New York City, the Urban Homesteading Assistance Board had processed 151 units by February, 1977.⁶⁷

The Section 810 Program was never intended to be more than a one-time allocation. In their evaluation of the H.U.D. Demonstration, Urban Systems Research and Engineering (USR & E) was prompted to write: "To be of value to local governments in their efforts to combat abandonment, urban homesteading must be able to draw properties from sources other than the H.U.D. inventory."⁶⁸

USR & E has estimated that the cities of Detroit and Philadelphia each contain approximately 25,000 abandoned properties.⁶⁹ Akre states that in 1974, when F.H.A. repossessions were at their height, the H.U.D. inventory in these cities totaled 5,200 and 4,000 respectively.⁷⁰ This is well under 25 percent of the total number of abandoned properties in both cities. In the future, the great bulk of homestead units will come from sources other than the federal government.

Potential Uses of Urban Homesteading

In order to determine the specific goals of locally administered urban homesteading programs, the grant applications of the 23 cities participating in the Federal Demonstration Program were examined. It is important to realize that many of the cities which filed acceptable applications had urban homesteading programs predating the Federal Demonstration.

In cities such as Baltimore, Philadelphia, and Wilmington, the

Section 810 units merely augmented an existing inventory of tax foreclosed properties. Thus, the program descriptions submitted by these cities merely described existing programs for homesteading tax foreclosed properties. H.U.D. mortgage foreclosed properties, which were deteriorated and concentrated in target neighborhoods, had characteristics similar to the units being processed under locally developed homesteading programs.

All of the demonstration cities formulated very specific goals about the population they would seek for program participation and the physical improvements they desired to occur within project areas. The specific objectives of all active homesteading projects, however, may be grouped into two basic and perhaps contradictory urban homesteading goals. Homesteading is considered to be capable of: (1) functioning as an additional source of low and moderate income housing, and (2) assisting in the revitalization of deteriorated residential neighborhoods.

Low and Moderate Income Housing

This section will examine the goal of housing low and moderate income families in urban homestead units. The feasibility and potential effectiveness of this goal will be discussed.

Background. The stated objective of the Federal Urban Homesteading Demonstration was "to test the viability of the homesteading concept as a preservation and stabilization tool."⁷¹ The Act authorizing the program makes no mention of using homestead units to house lower income families.

Nevertheless, many urban homesteading proponents, such as the National Urban Coalition, believe that the "focus of urban homesteading should be on those in greatest need of decent housing...the lower and

middle income families of our cities."⁷² In May, 1974, the United States House Committee on the District of Columbia, which held hearings on the potential feasibility of urban homesteading in Washington, reached a similar conclusion.

During introductory remarks, the Committee Chairman stated:

This (urban homesteading) will make it possible for a low or moderate income family with little capital but the will and capacity to restore an abandoned house, to purchase it for one dollar in return for an agreement to rehabilitate and live in it for five years.⁷³

The House Committee viewed urban homesteading as a ready means of providing the necessary capital for a family able to make regular monthly payments, but unable to accumulate sufficient savings for the down payment and settlement fees required in conventional property purchases. The Committee felt that homeownership would give low income families a stake in the future of the neighborhood. The resulting conscientious maintenance of individual units would raise the quality of the entire neighborhood environment.

Feasibility. The theories of neighborhood decline outlined in Chapter II maintain that a principal cause of decline is the inability of older residential areas to attract and retain middle income owner-occupants.

The costs of rehabilitating abandoned and severely deteriorated homes often approaches the costs of new construction. In Baltimore, the average rehabilitation costs for homestead units located in the Stirling Street and Durham Street project areas was \$26,500 and \$29,000 respectively.⁷⁴ The average monthly payments amounted to \$167 on Stirling Street and \$181 on Durham Street.⁷⁵

In York, Pennsylvania, the initial rehabilitation bids for

Homestead units located in the Codorus Creek project area ranged from \$35,000 to over \$50,000.⁷⁶ Under current H.U.D. guidelines, low and moderate income households are defined as those earning 80 percent or less of the median income for the Standard Metropolitan Statistical Area (SMSA). Within York County, low and moderate income families are defined as those earning less than \$8,000 per year.⁷⁷

It is generally accepted by loan officers and real estate brokers that the purchase price of a house should not exceed two and one-half times a family's yearly income. Thus, in York County, a moderate income family could spend a maximum of only \$20,000 for a home. As the lowest rehabilitation bids for homestead units in the Codorus Creek project totaled \$35,000, such families are clearly ineligible for participation in the program.

Even if low and moderate income families are provided with significant public subsidies, their incomes are insufficient to maintain property at more than minimum code standards. Thus, placing additional low and moderate income families in already deteriorating neighborhoods will not enhance the relative attractiveness of these areas in the competition for middle income families.

Potential Effectiveness. Homesteading by low and moderate income families is only possible if massive public subsidies and sophisticated support systems are provided. Oakland, California is one of the few cities which has developed the administrative and financial mechanisms necessary to allow participation by lower income families in urban homesteading programs.⁷⁸

Because preference is given to low income families, a large

proportion of Oakland's urban homesteaders can be expected to lack sufficient incomes to personally finance the rehabilitation of their units. To meet this need, the city has declared that all homesteaders, unable to obtain conventional financing, are eligible to participate in the "Home Maintenance and Improvement Loan Program," funded with Community Development Block Grant (CDBG) monies.

The efficacy of financing low and moderate income homesteaders with limited Community Development fund dollars is open to serious question. As will be discussed in Chapter V, significant public financial assistance is necessary even for middle and upper income urban homesteaders. Unlike low and moderate income participants, however, such families have sufficient personal financial resources to rehabilitate beyond minimum standards, properly maintain the property after rehabilitation, and meet emergency expenses without additional assistance from the city government.

Homesteading can be a much more effective neighborhood revitalization tool if it is used to entice middle income households back to central-city neighborhoods. Such households are more likely to restore original architectural detail and add visible modern amenities which will encourage similar households to return to central city neighborhoods. Such families are the key to central-city restoration.

By gearing the program toward middle income families, the very limited Community Development and general fund dollars can be used to improve public facilities such as: parks, curbs and sidewalks, and street furniture. With residents undertaking their own improvements and the public authority concentrating on public improvements, a much greater

impact can be obtained for approximately the same expenditure.

Early experience with the Section 810 program has shown that upper income families can be attracted to homesteading project areas. The administrator of the Atlanta homesteading program has informed the author that households with incomes approaching \$24,000 were participating in the City's program.

Neighborhood Revitalization

This section will examine neighborhood revitalization as a goal of urban homesteading. The feasibility and potential effectiveness of this goal will be discussed.

Background. All of the cities participating in the federal demonstration program viewed urban homesteading as a neighborhood revitalization tool. The role of homesteading in upgrading residential neighborhoods is based on the hypothesis that transferring property ownership from absentee landlords to resident owners will result in an increased level of structural maintenance.⁷⁹ It is viewed as a relatively inexpensive means for municipalities to encourage the return of financially and socially stable households to deteriorated central-city neighborhoods. Such households are capable of rehabilitating and maintaining their individual homes with only minimal governmental assistance.

Feasibility. Increasing the proportion of owner-occupants is a key element in the homesteading strategy. Albrandt and Brophy, in their analysis of neighborhood decline on Pittsburgh's North Side, found that the percentage of owner-occupants decreases as a neighborhood moves through the stages of decline which end with abandonment.⁸⁰ As the percentage of owner-occupants decreases, the likelihood of serious

deterioration is greatly enhanced.

Sternlieb and Burchell, after studying residential abandonment in Newark, also reached the conclusion that differences in housing quality by tenure are linked to residency. In Newark, only 11 percent of the parcels classified as "poorly kept" were occupied by resident owners. On the other hand, 56 percent of the "well kept" and 38 percent of the "reasonably kept" parcels were owner-occupied.⁸¹

It must be emphasized that simply increasing the proportion of owner-occupants, in the absence of other improvement programs, is not likely to have a significant impact. To be successful, urban homesteading must be part of a comprehensive program to improve an entire geographic area.

In their classic textbook, Real Estate, first published in 1939, Weimer, Hoyt and Bloom write:

The real estate decision maker has a vital interest in a property's immediate surroundings and its relationship to other parts of the local area and region. He has an interest in the property's environment and in any special physical, economic, governmental or other social factors that may improve or impair this environment. We usually refer to these various sets of relationships and particularly to those involving a property's immediate surroundings and its position relative to the local area and region as location factors.⁸²

The role of urban homesteading revolves around attracting middle income households willing to completely rehabilitate tax foreclosed and mortgage foreclosed properties and reside in them for a specified period of time. This action is intended to assist in increasing the locational attractiveness of a given neighborhood.

Potential Effectiveness. Early experience with the Section 810 Demonstration indicates that urban homesteading programs have the ability

to attract financially able owner occupants to central city neighborhoods. Urban Systems Research and Engineering reported that there were 13,749 applicants for 667 Section 810 homestead properties.⁸³ More importantly, 3662 applicants were found to be eligible under locally developed standards relating to financial capability, self-help skills, and social attitudes.⁸⁴ Thus, only 18 percent of eligible applicants were awarded homestead units. This would indicate that there is a significant demand on the part of eligible applicants for homestead units.

Moreover, there are indications that middle and even upper income households are attracted to homesteading properties. In 1975, the Baltimore Homeownership Development Division reported that yearly incomes of homesteaders ranged from \$5,800 to \$75,000 with the median calculated to be \$14,500. During the same year, the median income in Baltimore City was estimated at \$12,200.⁸⁵ Middle income families will be able to maintain their properties with minimal governmental assistance. Increasing the percentage of such families allows the city to concentrate limited financial and technical resources in other geographic areas of the city.

The Role of Urban Homesteading

The primary cause of neighborhood decline is the inability of older central-city neighborhoods to effectively compete for stable middle income residents.⁸⁶ When such families migrate from a given neighborhood, the percentage of rental properties increases, refinancing for necessary rehabilitation becomes increasingly difficult to obtain, and physical deterioration is more likely to occur.

In the absence of public or private intervention, a neighborhood

may decline to the point where owners of individual buildings are unable to command sufficient rents to meet basic operating expenses. Such properties, eventually abandoned as economic liabilities, are acquired by municipal governments through tax foreclosure proceedings.

There is some evidence to indicate that urban homesteading has the potential to be an effective element in a neighborhood-wide revitalization program. Homesteading, through offers of abandoned homes at nominal cost to households willing and able to rehabilitate them, encourages middle income families to return to central-city neighborhoods.

Homesteading, however is not an appropriate means of housing low and moderate income families. Even if municipalities were to make available loan/grant packages similar to Oakland, California's, such households simply do not have the personal financial resources necessary to meet the burdens of homeownership.

CHAPTER V

PROGRAM COMPONENTS

This chapter will first identify the basic objective or goal of urban homesteading as discussed in the preceding chapter. The three principal components or elements of the urban homesteading program will then be examined. These components are considered to be: (1) administration, (2) management, and (3) finance. The potential effectiveness of alternative administrative, managerial, and financial mechanisms in meeting the stated goal will be the basis for discussion.

Goal of Homesteading

Upon the basis of the discussion of urban homesteading uses in Chapter IV, it can be said that the appropriate goal of homesteading is to help bring about the revitalization or stabilization of a designated geographic area. Homesteading assists in neighborhood revitalization by providing a means for interested and financially capable families to rehabilitate abandoned structures in deteriorated central-city neighborhoods.

It will be shown in the remainder of this chapter that urban homesteading is a more complex procedure than simply "selling" homes for one dollar to individuals agreeing to rehabilitate them. To be successful in accomplishing the basic objective of neighborhood revitalization, a homesteading program must be coordinated with neighborhood-wide improvement efforts, have well-defined procedures for the selection of project neighborhoods and program participants, and provide

homesteaders with technical and financial assistance.

Administration

The 23 cities participating in the Federal Demonstration Program were required to submit detailed descriptions of the manner in which they intended to administer their homesteading programs. It must be remembered that many demonstration cities, particularly Baltimore, New York, Philadelphia, and Wilmington, only used the Section 810 allocation to augment their inventory of tax foreclosed properties. Thus, their administrative procedures are structured to homestead any abandoned property, regardless of origin.

A review of the grant applications filed by the 23 cities participating in the federal demonstration revealed that all existing programs are administered by either (1) independent boards, as (2) existing community development agencies. For purposes of discussion, representative administrative arrangements in Philadelphia, Baltimore, and Boston will be examined.

Independent Boards

This section will first describe the background of the independent homesteading board concept. The administrative structure of a representative board will then be examined. Finally, the potential effectiveness of this administrative framework in contributing to the goal of neighborhood revitalization will be examined.

Background. The central element of urban homesteading is an agreement by participating municipalities to provide homesteaders with tax or mortgage foreclosed properties at nominal cost. This "give away" aspect of the program has caused concern over possible misuse of public

property by public officials. Primarily to insulate elected officials and professional administrators from possible accusations, a number of cities have formed independent boards to supervise their homesteading programs.

Administrative Framework. Philadelphia, one of the first cities in the nation to enact an urban homesteading ordinance, administers its program through an independent board. The Philadelphia Board is an excellent illustration of this form of homesteading administration.

The Philadelphia program was designed by Councilman James Coleman, a bitter political opponent of Mayor Frank Rizzo. By structuring the administrative framework as an independent authority, Coleman hoped to limit the influence of the Mayor on the policy formulation and daily operations of the program.⁸⁷ Under the terms of the ordinance creating the program, board members are selected by the Mayor from a list of candidates submitted by City Council.

The Philadelphia ordinance specifies that this eleven-member Urban Homesteading Board is responsible for program policy and homesteader selection. The board is composed of representatives of the city government, financial community, building trades or professions, and general public.⁸⁸

To supervise the daily operation of the program, the board appointed a homesteading director and a 13 member staff. The staff consists of a finance officer, community resources coordinator, rehabilitation specialists, and homestead counselors.

The staff is primarily responsible for screening applicants and estimating the rehabilitation costs of homestead units. The final

selection of homesteaders is made by the board.

Under the provisions of the Philadelphia ordinance, specific housing and community development departments are required to provide the urban homesteading board and staff with technical assistance. In reality, however, the homestead staff performs almost all work directly related to the program in-house. It seems unlikely that the homesteading board would hire rehabilitation and financial specialists if such technical staff were readily available from other city departments. Performing homesteading work with a separate staff could possibly indicate an inability to secure staff assistance from other city departments or agencies.

Potential Effectiveness. A lack of coordination with other neighborhood improvement programs and difficulty in obtaining staff assistance are the principal difficulties with the independent board form of administration. A homesteading program, administered by an independent board, meeting only sporadically and largely divorced from the formulation of city housing policy, cannot easily be integrated with other neighborhood revitalization efforts.

Under such circumstances, there can be no assurances that necessary adjuncts such as public improvements, increased rehabilitation financing, and demolition programs will be concentrated in designated homesteading project areas. The rehabilitation of abandoned buildings, in the absence of efforts to upgrade surrounding buildings and neighborhood facilities, will not significantly contribute to the goal of neighborhood revitalization or stabilization.

Community Development Agencies

In this section, the administration of homesteading programs by community development agencies will be discussed. A format similar to that used in examining the independent board form of administration will be used. The format will consist of: (1) background, (2) administrative framework, and (3) potential effectiveness.

Background. Almost three-quarters of the 23 cities participating in H.U.D.'s Urban Homesteading Demonstration Program are administering their programs through existing community development or housing agencies.⁸⁹

Such agencies generally have direct responsibility for the administration of housing rehabilitation programs, public facilities improvements, code enforcement programs and demolition programs. Urban homesteading is viewed as an additional program intended to rehabilitate abandoned buildings.

Administrative Framework. In Baltimore, the Homeownership Development Division, located within the Department of Housing and Community Development (D.H.C.D.), is responsible for the operation of the homesteading program. This Department, which also administers all housing rehabilitation loan and grant programs, public facilities improvements, and code enforcement, contains all the programmatic and technical resources necessary to operate a comprehensive neighborhood revitalization program.

Placing the urban homesteading program within the Homeownership Department Division of the D.H.C.D. was a result of the Division's

original responsibility for disposing of excess city-owned residential properties. Although Baltimore is participating in the federal demonstration program, most of the properties in the city's program were acquired through tax foreclosure proceedings or under urban renewal powers.⁹⁰

The selection of homesteading project areas and auxiliary revitalization programs is the ultimate responsibility of the chief administrator of the D.H.C.D. By concentrating planning and policy level decision-making in a centralized community development department, the homesteading program is assured that adequate neighborhood-wide support programs will be implemented.

In Boston, the homesteading program is administered through the Office of Community Development (O.C.D.). The authority and responsibility of the O.C.D. is similar to that of Baltimore's Department of Housing and Community Development. Thus, the selection of neighborhood revitalization project areas is the responsibility of O.C.D. This permits the Office to use urban homesteading, when deemed appropriate, as an element in a coordinated campaign against blight.

Boston's homesteading program, however, differs from Baltimore's in that the former is attempting to decentralize much of the daily administration and some of the decision-making. This is being accomplished through the formation of "Neighborhood Advisory Boards" and "Housing Corporations" within project areas.⁹¹

The Homestead Director, from his position within the Office of Community Development, is responsible for coordinating the activities of the Neighborhood Boards and Housing Corporations within four

homesteading project areas.

The Neighborhood Boards, composed of representatives of project area community organizations, are responsible for:

1. Setting property selection standards within their neighborhood,
and
2. Interviewing and approving all program participants.

Housing Corporations, non-profit organizations with some expertise in the area of construction, are responsible for the technical aspects of the rehabilitation process within their project areas. These responsibilities include:

1. Drafting plans and specifications for the required rehabilitation work;
2. Interviewing applicants and making recommendations to the Neighborhood Boards;
3. Soliciting bids from sub-contractors;
4. Providing counseling services; and
5. Performing periodic inspections of the properties and monitoring the progress of the homesteaders during the required residency period.

Under this administrative arrangement, Boston grants a degree of participation to the city's very strong neighborhood associations. However, the selection of project neighborhoods and area-wide improvement programs remains with the O.C.D. The O.C.D. is the arena where all city-wide housing and neighborhood improvement policies are formulated.

Potential Effectiveness. Locating urban homesteading programs within centralized community development organizations permits them to

be utilized as instruments for the rehabilitation of abandoned homes in selected neighborhoods. Homesteading may then be used in concert with such programs as code enforcement, spot demolition, and public facilities improvements. All of these programs are necessary to revitalize or stabilize a given geographic area.

Management

The previous section was concerned with the administrative location of the homesteading program and its relationship to other community development or neighborhood renewal activities. Program management, the subject of this section, refers to the procedures and policies which homesteading administrators must control.

The management of an urban homesteading program concerns the following seven elements: (1) monitoring residential abandonment, (2) assembling a homesteading inventory, (3) selection of project areas, (4) the selection of homesteading units, (5) the selection of program participants, (6) the homestead agreement, and (7) rehabilitation requirements.

Monitoring Residential Abandonment

A monitoring mechanism, capable of quickly identifying abandoned residential structures, is an essential element of an urban homesteading management system. Experience has demonstrated that abandoned buildings, located in deteriorated and crime-ridden neighborhoods, can be vandalized beyond the point of economic rehabilitation in a matter of months.⁹²

The nature of neighborhood decline and the abandonment process are primarily responsible. A landlord, abandoning a rental property as

an economic liability, is very likely to forego the expense of properly sealing the building. Such structures may be extensively vandalized before public authorities are able to acquire them through tax foreclosure sales. Thus, cities with true abandonment problems, which include most metropolitan areas in the Northeastern and North Central regions of the country, have found it necessary to develop procedures for quickly identifying abandoned properties.⁹³

Some cities, such as Baltimore, simply rely upon citizens and community organizations to notify authorities of abandoned parcels that they consider suitable for homesteading.⁹⁴ In Boston, however, the housing inspection department conducts windshield surveys of abandonment plagued neighborhoods at six-month intervals. The city's legal staff then undertakes title searches of all properties suspected of being abandoned.

Privately-owned parcels are inspected for violations of the sanitary and building codes. If prosecution is warranted, the legal department submits the case to housing court which may require that the building be sealed.

If subsequent investigations reveal that the building is in sufficient tax arrears, foreclosure proceedings may be initiated.

The most complex monitoring mechanism, however, is found in Philadelphia. The city, plagued by severe residential abandonment problems, has developed a computerized system capable of yielding census tract and address specific data on the location and general condition of properties which have been vacant for six months or longer.

This Vacant Property Monitoring System (V.P.M.S.), initiated in

1970, was originally based on visits by water meter readers at six-month intervals.⁹⁵ The operational procedures of the program, administered by the Department of Licenses and Inspections, specify that all vacancies be reported to the housing data center. If a property is listed as vacant for an entire year, a housing inspector is sent to determine if the building is abandoned and to report on its condition.

The V.P.M.S. is capable of correlating address specific housing information with property tax data to determine if abandoned and/or deteriorated properties are in tax arrears. When appropriate, the legal department may begin tax foreclosure proceedings.

The V.P.M.S. also maintains records of police reports and citizen complaints that involve vacant properties. The legal staff may initiate condemnation proceedings against buildings deemed to be public nuisances or safety hazards.

Data collection by water meter readers was discontinued in 1975.⁹⁶ Because inspection periods were six months apart, the city found that the vast majority of properties were extensively vandalized before acquisition procedures could be completed. The staff of the homestead program estimated that only seven or eight of the 250 abandoned parcels owned by the city were suitable for rehabilitation.⁹⁷ The remainder had deteriorated beyond the point of economic rehabilitation.

Information on residential abandonment is now gathered through neighborhood complaints and daily canvassing by the housing inspection staff. By quickly identifying and securing abandoned buildings, the rehabilitation costs of homesteaders may be reduced considerably.

Homesteading Inventory Assembly

The basic ingredients of all urban homesteading programs are the

quality and number of units in the inventory. At present, homesteading authorities obtain units in five different ways: (1) H.U.D. repossessions, (2) purchase, (3) gifts, (4) receivership, and (5) tax foreclosure.

H.U.D. Repossessions. In October, 1975, H.U.D. transferred approximately \$5 million worth of repossessed properties to 23 local governments selected for participation in the Section 810 Urban Homesteading Demonstration Program.⁹⁸ These units, which were F.H.A. repossessions, were in a moderately advanced state of deterioration.

Under the terms of the Program, the purpose of the demonstration was to "test the viability of the homesteading concept as a preservation and stabilization tool in carefully chosen, declining, but not severely blighted neighborhoods."⁹⁹

During the period July, 1976 through May, 1977, approximately 1,045 vacant, one to four family properties located within designated homesteading neighborhoods were eventually transferred to local governments. This H.U.D. program, intended only to test the feasibility of the urban homesteading concept, is not expected to be a continuing source of homesteading units.

The H.U.D. inventory of vacant, one to four family residential properties has been reduced from over 70,000 to less than 30,000.¹⁰⁰ This has led Urban Systems Research and Engineering, in their evaluation of the Section 810 Program to write: "To be of value to local governments in their efforts to combat abandonment, urban homesteading must be able to draw properties from sources other than the H.U.D. inventory."¹⁰¹

The remainder of this section will examine other means open to local governments wishing to assemble a homesteading inventory.

Purchase. Frustration with antiquated and time-consuming tax foreclosure proceedings has led some communities to develop programs to purchase abandoned units for their homesteading programs.

Abandoned and severely damaged properties generally have appraised values that range from \$500 to \$1,000.¹⁰² Purchasing such properties from landlords, who view the parcels as economic liabilities, seems an expeditious means of assembling a homesteading inventory. By avoiding the lengthy legal procedures attendant upon tax foreclosure sales or condemnation proceedings, buildings can be quickly acquired and given to urban homesteaders willing to rehabilitate them.

The City of Philadelphia's H.U.D. demonstration program application indicates that it is preparing plans to use Community Development Block Grant funds to purchase suitable privately-owned units in homesteading target neighborhoods.¹⁰³

In Bostox, Urban Edge, Inc., a non-profit real estate corporation active in the Jamaica Plain and other neighborhoods on the urban edge of Boston, has also indicated it plans to establish a revolving trust fund which will enable them to quickly purchase, renovate, and resell abandoned homes.¹⁰⁴ This project is being funded by grants from the Urban Reinvestment Task Force and the city of Boston.

The major difficulty with purchase programs centers on the liens placed upon abandoned buildings by municipalities, school districts, utility companies, and financial institutions. In York, Pennsylvania, such liens placed on abandoned parcels in the Codorus Creek Redevelopment Area, are generally found to exceed assessed values by several thousand dollars.¹⁰⁵ The payment of such liens would thus take the

entire settlement if the properties were sold at their assessed values of \$500 to \$1,000. Unless the agreed upon transaction prices exceed the total amount of such liens, owners have no financial incentive to sell their properties. Sales for less than this total indebtedness figure would amount to virtual gifts.

Gifts. At present, gifts of tax delinquent properties to cities are rare. Difficulties stem primarily from prohibitions in state constitutions and city charters which forbid governmental units from accepting real property as payment for taxes due.¹⁰⁶

A survey of the literature and an examination of demonstration project grant applications revealed that only Newark and Philadelphia have made provisions for accepting real property in exchange for tax forgiveness. Newark is reportedly acquiring almost 100 units per year in this manner.¹⁰⁷ Such gifts are largely a result of concern over possible liability for personal injuries sustained in structurally unsound and poorly sealed buildings.

The active solicitation of abandoned properties as gifts is an underutilized procedure that may deserve more attention. Urban homesteading authorities, wishing to assemble an inventory, would make owners of abandoned structures aware that such gifts would enable them to simultaneously dispose of economic liabilities and claim business losses on their federal income tax returns.

Receivership. In a number of cities, condemnation procedures may be initiated against abandoned and deteriorating structures that are potential hazards to the health and safety of the community.

Unfortunately, the certification of public nuisances and subsequent

condemnation procedures can be very time consuming, often allowing buildings to deteriorate beyond the point of rehabilitation. Because condemnation is such a lengthy procedure, urban homesteading administration must develop alternative "quick take" procedures.

Placing abandoned units in a receivership program may be a viable alternative to condemnation. Under such a program, the city may perform all necessary repairs and place lien on the property for the amount thereof. If the owner fails to pay the costs of such repairs, the city may institute proceedings to foreclose on the lien.

In actual practice, few abandonment plagued municipalities have the financial resources to rehabilitate severely deteriorated properties. A variation of this receivership program, however, may be a useful means of assembling and preserving an urban homesteading inventory.

If authorities find a structure unoccupied and improperly sealed against casual entry, they may have city work crews securely board the building and place a lien on the property for materials, labor and administrative costs. If the owner has truly abandoned the building, such costs will remain unpaid and foreclosure proceedings may be initiated.

During the interim period, the building is protected against further vandalism. After lien foreclosure proceedings are complete, the property may be given to urban homesteaders willing to rehabilitate the property with their own funds.

Tax Foreclosure. It has been observed that neighborhoods on the edge of extensive abandonment have an increasing percentage of properties in tax arrears.¹⁰⁸ Most cities, lacking programs to effectively deal

with abandoned properties, have been reluctant to foreclose upon tax delinquent properties.

In Wilmington, for example, city authorities would not take any action until back taxes totaled \$1,000.¹⁰⁹ Under such circumstances, a period of up to 10 years could elapse. In other cities, the situation was much the same. Paul Brophy, of ACTION Housing, estimated that in early 1974 there were 24,000 to 35,000 abandoned housing units in Philadelphia. Of these units, H.U.D. owned approximately 4,000 and the city a mere 300.¹¹⁰

Chris Drewes, in another Philadelphia study, has estimated that fewer than 100 of these city-owned properties were suitable for home-steading.¹¹¹ Lengthy tax foreclosure procedures, which allow units to reach an advanced state of deterioration, are largely responsible.

These acquisition delays, common in most major cities, are a result of state legislation enacted during the Great Depression of the 1930's to protect small homeowners. In Maryland, for example, municipalities must wait 18 months before proceeding with tax sales. Moreover, after such tax sales, there is a further waiting period of 12 months during which the original owners may reclaim their parcels by payment of back taxes and interest.¹¹² At the end of this two and one-half year waiting period, parcels are often so badly vandalized and deteriorated that municipalities must purchase the properties due to a lack of acceptable bids.

Such lengthy waiting periods are common. In New York City, authorities may not initiate foreclosure proceedings against one and two unit dwellings until the owner has failed to pay taxes for three

consecutive years.¹¹³ In Newark, the city may not take action until a property has been in tax arrears for 18 months. Moreover, final disposition is further delayed by a two-year redemption period during which the owner may pay delinquent taxes with fees and interest.¹¹⁴ In Massachusetts, there is a similar two-year redemption period.¹¹⁵

Lengthy redemption periods, intended to protect small property owners during nationwide economic difficulties, now only serve to inhibit the restoration of declining central-city neighborhoods.

In an effort to meet changing conditions, several state governments have enacted special legislation. Examples of state legislation intended to speed the acquisition of tax delinquent properties are listed below:

1. In 1974, the Pennsylvania State Legislature passed into law an act enabling "First Class Cities" to take possession of deteriorated and tax delinquent properties after a period of only six months.¹¹⁶
2. The New Jersey State Legislature reduced the redemption period from one and one-half years to six months. Moreover, if city authorities believe that a building constitutes a health or safety hazard, they may initiate legal proceedings to take title within 60 days.¹¹⁷
3. In Delaware, the transitional period, between certification of delinquency and tax foreclosure sale, has been reduced from 13 months to six months. There is also a special provision for municipal takeover of buildings declared to be abandoned and/or deteriorated. This legal procedure takes approximately 60 days.¹¹⁸

4. In Massachusetts, the state legislature has reduced the waiting period from two years to six months.¹¹⁹

If buildings can be quickly acquired and secured against unlawful entry by vandals, the costs of rehabilitation can be substantially reduced. The limiting of redemption periods will enable cities to quickly process such units and place them in the hands of urban home-steaders willing to undertake the necessary rehabilitation work.

Project Area Selection

Potential urban homesteading properties must be evaluated within the context of the larger neighborhood of which they are a part. It must be remembered that although homestead units only sell for one dollar, rehabilitation costs can approach those of new construction. In the absence of efforts to upgrade surrounding properties and public facilities, a homesteader may invest \$20,000 in a home in an area surrounded by properties selling for \$10,000. Unless surrounding properties are upgraded, it is unlikely that the resale price of homestead units would cover the costs of rehabilitation.

Henry E. Hoagland, of Ohio State University, writes:

The house he builds may be much better than its neighbors. This represents overimprovement. All properties tend to absorb value from, as to contribute value to, adjacent properties....

If a new front elevation and a new interior arrangement cost \$600.00 and will enhance the value by \$750.00, the money is well spent. But, if an expenditure of \$1,500.00 would add only \$800.00 to the value, the expenditure is unwise. No modernization program should result in overimprovement. The tone of the neighborhood should not be disregarded.¹²⁰

Grigsby has pointed out that real estate transaction prices in abandoned plagued neighborhoods are generally below the costs of completely rehabilitating abandoned structures.¹²¹ Baltimore, which had one of

the first urban homesteading programs in the nation, attempted to overcome this difficulty by concentrating homesteading efforts in project areas. It is felt that if program participants are made aware that all properties in an area will be upgraded, they will be more inclined to make the required investment.

In an article on homesteading in Baltimore, the New York Times reports:

When the homesteading effort, in particular, has been carried out in concentrated areas, it has tended to become a program for the middle class...The median amount borrowed by Otterbein (project area) homesteaders for upgrading the houses was \$37,500. And the city chips in with no taxes for two years and street and park improvements.¹²²

It was pointed out in Chapter II that residential abandonment is a symptom of neighborhood decline. Simply concentrating on abandoned buildings, while ignoring conditions in the surrounding neighborhood, is likely to prove a futile exercise. Carla Hills, former H.U.D. secretary, when speaking of the urban homesteading demonstration, stated that: "A comprehensive attack on neighborhood decay must accompany homesteading. Filling a few empty houses will not turn a neighborhood around."¹²³

Homesteading is more likely to have the desired impact if it is concentrated in areas where there is a realistic possibility of revitalizing the entire neighborhood.

An examination of program descriptions on file with H.U.D.'s Office of Policy Development and Research indicates that the Philadelphia program has the most comprehensive project area evaluation procedures. The stated criteria seem to cover most of the important points relating to owner-occupancy ratios, vacancy rates, and general appearance.

The Philadelphia Homestead Board places particular emphasis on the condition of neighborhoods when evaluating potential homestead project areas. Before adding a particular unit to the homesteading inventory, the staff conducts a survey of the block. Program standards in Philadelphia require that project blocks meet the following criteria:

1. The homeownership ratio should be no less than 65 percent;
2. The vacancy rate should be low, preferably three properties per block or less; and
3. The general quality of the neighborhood environment should be at an acceptable level. This requires a subjective determination based on such factors as evidence of trash or garbage in streets and vacant lots, the appearance of buildings, and the level of community organization.¹²⁴

Philadelphia homesteading administrators believe that a neighborhood which meets the above criteria has the best chance of responding positively to efforts intended to upgrade housing and neighborhood facilities. If blighting influences are eliminated, the area may be potentially attractive to private investors.

Unit Selection

As was discussed in the preceding section, much criticism of urban homesteading is based on a belief that program participants will experience extreme difficulty in recouping their rehabilitation costs in subsequent resales. William Grigsby, of the University of Pennsylvania Urban Planning Program, writes that urban homesteading is a "terrible idea." He writes:

In areas where homes sell for \$8,000, an abandoned house might require \$15,000 minimum to restore. Unless there is a public subsidy (for

rehabilitation), the homesteader is being led into a bad deal.¹²⁵

This objection, which is true, may be overcome if proper unit selection procedures are followed. In general, the rehabilitation costs of homestead units should not exceed projected market values after the completion of the project. This is not to imply that a homestead unit is primarily an investment. Hoagland writes:

One of the major reasons for owner-occupancy of single houses is the enjoyment of the amenities which attach to such properties--those intangible qualities of style and layout and environment which give to the owner a feeling of satisfaction and distinction.¹²⁶

Nevertheless, homesteaders should not be required to invest \$30,000 in the rehabilitation of a unit that cannot be expected to sell for more than \$20,000 on the open market. Under such circumstances, a family forced to vacate a unit because of a job change, for example, would be burdened with a considerable debt.

Rehabilitation costs, however, may exceed market values in the neighborhood before the completion of scheduled improvements. If the homestead unit is located in a project area where public facilities and surrounding buildings are scheduled to be upgraded, real estate values within the area may be expected to rise significantly.

In 1975, ACTION Housing completed an analysis of the effectiveness of Pittsburgh's Neighborhood Housing Services Program (N.H.S.). N.H.S., through the administration of a high-risk revolving loan fund, was intended to upgrade residential neighborhoods on the Central North Side.

An analysis of the transaction prices for single-family units on the Central North Side (C.N.S.) indicates that reinvestment can have

a very positive effect on property values. After the initiation of the N.H.S. Program in 1968, average transaction prices increased from \$5,490 to \$7,810 by 1974. This increase greatly exceeds increases in neighborhoods of similar socio-economic status to the C.N.S. (See Table 4).

Urban homesteading administrators should make an effort to guard the financial interests of potential program participants. Thus, prior to unit selection, appraisers, familiar with proposed loan/public improvement packages, should be retained to estimate the market value of the property after completion of the required residency period. This figure should then be compared with estimated rehabilitation costs as determined by the homesteading staff. Properties with excessive rehabilitation costs should be considered for demolition.

Program Participant Selection

Thomas Maloney, Mayor of Wilmington and architect of the nation's first urban homesteading program, has said: "We have often commented that homesteading is not a housing program, but a people program. We already have the houses. What we need is people to live in them."¹²⁷

The development of proper procedures for the selection of homesteaders is a key element in the success of any urban homesteading program. All programs have general requirements that applicants be over 18 years of age, natural persons, United States citizens, and agree to abide by the terms of the homestead agreement.

However, the prime consideration in selecting program participants is financial ability to renovate and maintain the house. All of the cities participating in the federal demonstration indicated that

Table 4. Average Real Estate Transaction Prices C.N.S. and Comparable Neighborhoods.

Year	C.N.S.	Comparable Neighborhoods		
		Garfield	Larimer	17th Ward
1974	\$7,810	\$7,800	\$7,157	\$6,384
1968	5,490	6,739	6,015	6,216
1962	5,916	6,672	6,501	6,115
<u>Percent Change</u>				
1962-68	(7.2)	1.0	(7.5)	1.7
1968-74	42.3	15.7	19.0	2.7

Source: Ahlbrandt, R. S. and P. C. Brophy. An Evaluation of Pittsburgh's Neighborhood Housing Services Program, (Pittsburgh: ACTION Housing, 1975).

financial capability was the primary screening mechanism in selecting homesteaders.¹²⁸ Only six of the 23 participating cities listed housing need as a requirement for selection.¹²⁹

Applicants in need of safe and sanitary housing, but with marginal or unsteady incomes, can hope to do no more than maintain the property at minimum code standards. The basic goal of urban homesteading, as outlined initially, is to help reverse or at least stop the process of neighborhood decline within a designated geographic area. Families which are financially capable of fully rehabilitating and maintaining a given unit are more likely to contribute to this goal.

Giving preference to such families does not indicate indifference to the needs of low and moderate income families. Attracting financially capable families back to central cities will eventually strengthen the city's tax base and decrease the need for housing services within existing rehabilitation areas. Increasing the percentage of middle-class families, capable of meeting their own housing needs, will free limited public funds for rent subsidies, loan/grant packages, and subsidized construction programs. These are the types of programs which can most effectively meet the housing needs of low and moderate income families.

Simply increasing the number of middle income families within designated rehabilitation areas will not necessarily guarantee additional housing assistance for lower income families in other areas of the city. Only an increase in the amount of assistance funds or a metropolitan dispersal of lower income families will do this. A detailed

discussion of this subject is beyond the scope of this thesis.

The homesteader selection procedures in Boston, Baltimore, and New York are primarily concerned with the ability of applicants to meet the financial terms of homestead agreements. Administrators in Boston and Baltimore specify that housing costs (mortgage payments, taxes, maintenance expenses, and utility costs) not exceed 30 to 35 percent of the participants' gross monthly incomes.¹³⁰ These percentages are somewhat moderate by allowances for the amount of "sweat equity" or personal labor that applicants are able to invest.

All applicants that meet the general and financial criteria are then considered equally; no provision is made for need. Final selection is made by means of a lottery.

New York has quantified the selection procedure by developing a "homeowner potential" questionnaire which measures the applicant's capacity to meet the personal and financial obligations of homeownership. The primary factors scored are: (1) desire for homeownership, (2) income potential, (3) income stability, and (4) current monthly income.¹³¹ A weighted point system is used to determine minimum qualifications. The final selection is jointly determined by community groups and program administrators.

The selection procedures utilized by these three cities, which place prime emphasis on financial ability, meet the most important consideration for the selection of program participants. The return of middle-income families will hopefully permit these cities to curtail housing rehabilitation and maintenance programs within homesteading project areas and transfer technical and financial resources to

other deteriorated neighborhoods.

The Homestead Agreement

The homestead agreement is a legal contract which defines the obligations and responsibilities that program participants agree to undertake in exchange for conveyance of the property. Specific terms and conditions vary among cities, but three requirements are common to all programs. They are:

1. Program participants must agree to rehabilitate their unit to property rehabilitation standards set by the administrative authority. Depending upon the city, homesteaders have three to nine months from the initiation of the agreement to make their units habitable and occupy them. The participant has an additional twelve to eighteen months after occupancy to bring the property into complete compliance with applicable city codes.
2. Following the completion of renovation, program participants must agree to live in their units for a specified period of time. Residency periods range from eighteen months to five years; with three years being the most common requirement.
3. To assure compliance with all program regulations, participants must agree to allow reasonable inspections by homesteading authorities during the residency period.

In the event that the homesteader should breach any of the above requirements, the property and all improvements would revert to the city. The Agreement for Urban Homesteading of Decatur, Georgia, is typical:

Should homesteader breach any of the terms, covenants, agreements and conditions of this agreement...homesteader's qualified fee simple title to the property shall terminate....In the event that such breach...occurs after the completion or partial completion of any of the repairs or improvements to the property as specified in this agreement, those repairs and improvements shall become a part of the said property and ownership thereof shall rest in Authority..¹³²

Such terms and conditions are necessary to give homesteading authorities ongoing control over project areas.

Urban homesteading is intended to assist in the revitalization of declining neighborhoods. The specific function of homesteading is to rehabilitate abandoned units. If neighborhood property values are to be increased or at least stabilized, all program participants must rehabilitate their properties to agreed upon standards. If homesteaders are permitted to renege on rehabilitation or occupancy terms, the investment of other homesteaders and neighborhood residents could be adversely affected.

Rehabilitation Requirements

In general, urban homesteading administrative regulations require that participants rehabilitate properties to minimum code standards. In order to prevent excessive costs or even fraud, it is essential that the homestead staff set guidelines for contractors and supervise the actual rehabilitation work.

A necessary first step would be the preparation of preliminary rehabilitation cost estimates. These estimates will give program participants a basis for evaluating the estimates submitted by rehabilitation contractors.

Philadelphia requires that homesteaders obtain a minimum of three bids on the rehabilitation write-up. Moreover, all contractors

must be from the city's approved list or meet with the homestead staff and prove they meet requirements on bondability and insurance. Acceptable bids must be within 10 percent of the city rehabilitation staff's estimates.

In an attempt to minimize rehabilitation costs, most local programs encourage urban homesteaders to apply "sweat equity" or personal labor toward the costs of rehabilitation. Philadelphia actually requires program participants to do a minimum of \$1,000 of personal labor on their homes.¹³³ Homesteaders willing to sand floors and scrape paint can significantly lower the labor costs of a rehabilitation project.

Most homesteading rehabilitation requirements are geared toward upgrading abandoned parcels to meet minimum city code standards. A number of cities, however, most particularly Baltimore, have been successful in attracting upper-income homesteaders willing to upgrade properties far beyond minimum city standards. Such families, attracted by low-interest loans and proximity to the "Old Town Mall" and "Inner Harbor" areas are investing \$50,000 to \$100,000 in homesteading properties.¹³⁴

This influx of middle and upper-income households is causing increasing concern among long-term residents over "gentrification" of their neighborhoods. These incoming families, both vocal and articulate, tend to dominate neighborhood organizations and impose middle-class development objectives upon the neighborhood.

Disconcerting as this may be, urban homesteading requires program participants financially able to rehabilitate an abandoned property to

at least minimum code standards. Financially able families are usually from the middle class.

Finance

After a building has been abandoned, it is very difficult to obtain conventional financing for necessary rehabilitation. Such properties are likely to be in a highly advanced state of deterioration. Thus, they do not offer a financial institution much security in the event of a default. This, of course, has important implications for urban homesteading. If a homesteader defaults before the rehabilitation work is complete, the lender will be left with an abandoned shell of marginal value.

The costs of completely rehabilitating abandoned properties can be quite significant. The median amount of money borrowed by homesteaders in Baltimore's Otterbein Project Area is reported to be \$37,000.¹³⁵ The Wall Street Journal found it took \$6,000 to \$12,000 per unit to bring homestead units up to minimum standards in Boston.¹³⁶

To make urban homesteading attractive to eligible families and to encourage rehabilitation beyond minimum standards, some type of public financial assistance is necessary. Virtually all cities with active homesteading programs now offer some form of financial assistance.

Congress has mandated that all cities participating in the Section 810 Urban Homesteading Demonstration submit "plans for assuring the availability of short and long-term financing for rehabilitation."

Financial assistance to urban homesteaders takes four basic forms. They are: (1) encouraging the participation of private financial

institutions, (2) direct loans, (3) federal guarantees, and (4) tax relief.

Private Financial Institutions

The very nature of homesteading agreements is a major impediment to the participation of private financial institutions. The major difficulty stems from the fact that the homesteader does not have clear title to the property until the required residency requirements have been fulfilled, generally a two to five year period.

Such difficulties are not overwhelming. In Wilmington, one of the original urban homesteaders, a lawyer for the DuPont Corporation, rewrote the city's urban homestead agreement so that title was granted to the participant at the conclusion of the loan agreement. In the event of a default, the loan agreement would be considered concluded: the lending institution would be able to place a lien upon the property.

Technical difficulties with the terms and conditions of homesteading agreements are easily resolved. Increasing the relative attractiveness of central-city neighborhoods as sites for investments by commercial lending institutions is much more complex.

In such areas, residential structures are much more likely to be negatively affected by the intrusion of commercial or industrial land uses and the deterioration of surrounding buildings. When writing of neighborhood decline and the effects of invading land uses, Hoagland states:

The migration of factories into or even near residential districts may result in rendering such districts undesirable for residential use. As a consequence, values decline rapidly...¹³⁷

At present, factories seldom chose to relocate within central cities. However, the migration of service stations, adult book

stores, and 24-hour convenience stores could be expected to have much the same effect on residential property values.

In the absence of public efforts to increase the attractiveness of central city neighborhoods, private investment will continue to be channeled toward suburban developments. Cities are now attempting to encourage reinvestment in central-city neighborhoods by: (1) encouraging individual financial institutions to invest in central-city real estate, and (2) encouraging financial institutions to form consortiums for high-risk loans in revitalization neighborhoods.

Individual Institutions. The City of Boston has long taken advantage of a Massachusetts's State Banking Commission requirement (now a federal requirement) that banks disclose the source of their deposits and mortgage lending patterns. The City is making use of this ruling to ensure the availability of mortgage and rehabilitation financing in all areas of Boston. To accomplish this objective, the city has:

1. Required all banks holding public funds to sign pledges promising not to engage in red-lining and
2. Refused to deposit city funds in banks which refuse to sign such pledges or exhibit discriminatory lending patterns.¹³⁸

Boston is also making extensive efforts to enhance the investment potential of now marginal central-city neighborhoods. By concentrating Community Development Block Grant funds in housing improvement programs and upgrading public facilities (street lights, street and sidewalk repairs, tree planting, park improvements, etc.), the amenity quality of such neighborhoods can be significantly increased. If area

property values begin to exhibit an upward trend, private financial institutions are more likely to release funds for the complete rehabilitation of abandoned properties.

Consortiums. The financing of homesteading and other rehabilitation programs has reached a very high level of sophistication in Wilmington. Because of state constitutional prohibitions against the use of public funds to improve private property, the city relies almost exclusively upon commercial lending institutions to finance the rehabilitation of homestead properties.

In mid-1974, the Wilmington City Housing Corporation (W.C.H.C.) reached an agreement with a consortium of eight local banks and saving and loan institutions. Under the terms of this "Homestead Loan Agreement," each of the participating institutions agreed to provide three rehabilitation loans of up to \$10,000 to qualified urban homesteaders.

The interest rates were slightly below conventional levels. Repayment on sums up to \$6,500 had to be made within 10 years and within 15 years on all amounts in excess of this figure.¹³⁹

To allay consortium concerns over the granting of rehabilitation loans in excess of the present market value of some of the homes, the W.C.H.C. agreed to guarantee 40 percent of the outstanding balance of all homesteading rehabilitation loans.

These monies are placed in a special interest-bearing service account. Any funds accrued in excess of the 40 percent are transferred back to the city on an annual basis where they are available for new guarantees. The program is financed by grants from the Sachen Fund

(\$125,000)¹⁴⁰ and the Mellon Foundation (\$50,000).¹⁴¹

Hughes and Bleakly, authors of Urban Homesteading, have criticized both the \$10,000 loan ceiling and small number of loans granted under this financing mechanism.¹⁴² If all eight participating institutions granted three improvement loans at the \$10,000 maximum, the total investment would only amount to \$240,000 and the rehabilitation of 24 units. The rehabilitation of 24 units is insufficient to create a significant impact in a city the size of Wilmington.

Private financial institutions alone cannot be expected to fund large scale urban homesteading or rehabilitation projects. The primary objective of a financial institution or any other business is to maximize profits. By granting improvement loans at below market interest rates, even if guaranteed by a public authority, the institution is foregoing a potential profit. Any funds loaned to urban homesteaders at a 5 or 6 percent rate of interest are unavailable for conventional loans at 9 or 9-1/4 percent.

In York, Pennsylvania, a consortium of five local lending institutions has agreed to make available \$500,000 in rehabilitation loans at a five percent rate of interest. While half a million dollars appears to be a significant sum, it only amounts to a \$100,000 commitment from each participating institution. This is only slightly above the average mortgage loan for two, new, single-family units.

A loan officer at a major York bank has confided to the author that area financial institutions are simply not interested in central-city rehabilitation programs. Investment in new suburban construction offers both greater security and potential profit. Clearly, more direct

financial assistance by city governments is necessary.

Direct Loans

A major obstacle urban homesteaders face in obtaining conventional financing is that the building cannot be used as loan security until rehabilitation is complete. As rehabilitation costs often approach the costs of new construction, few program participants have adequate alternative sources of loan security.

To meet this need, almost all cities with homesteading programs have made extensive use of Community Development Block Grant (C.D.B.G.) funds to finance the rehabilitation of homestead properties.

Baltimore, for example, has targeted \$800,000 of first year C.D.B.G. funds to form the "City Housing Assistance Program." This program provides rehabilitation loans to urban homesteaders at interest rates of 0 to 7 percent depending on family income.¹⁴³

Boston, utilizing a more cost effective approach, has used \$1 million in C.D.B.G. monies to establish a revolving construction loan fund.¹⁴⁴ The objective of this program is to use small amounts of C.D.B.G. funds to leverage more significant amounts of long-term financing from conventional lenders.

The City accomplishes this by granting "construction" loans to urban homesteaders from the C.D.B.G. revolving loan fund. After the property has been rehabilitated to city code standards, the homesteader secures an F.H.A. insured long-term mortgage with a conventional lender. This mortgage loan enables the homesteader to repay the revolving fund, and the money is again available for future construction loans.

Philadelphia, utilizing C.D.B.G. monies and a grant from the

William Penn Foundation, has established a similar \$300,000 revolving fund for construction loans.¹⁴⁵ Under this program, the city makes available six percent construction loans to homesteaders which fall due in six months.

Unlike Boston, which relies solely upon conventional lenders for permanent financing, Philadelphia homesteaders may obtain long-term mortgages from the Pennsylvania Housing Finance Agency. Interest rates, based upon household income, range from three to seven percent.¹⁴⁶

Boston and Philadelphia, by financing only construction loans, encourage conventional lenders to participate in the urban homesteading process. This approach enables these cities to create very significant impacts with relatively small amounts of monies.

Federal Guarantees

In order to interest commercial lending institutions in urban homesteading rehabilitation loans, municipalities must agree to undertake extensive public improvements and provide for some type of financial guarantee. In New York City, Chase Manhattan, Chemical, First National City, Manufacturers Hanover Trust, and two local Queens Savings Banks expressed a willingness to participate in the homesteading program if: (1) the city made efforts to improve the general quality of the neighborhood environment and (2) if F.H.A. insurance were available.¹⁴⁷

F.H.A. regulations, however, require that program participants have clear title to property purchased with F.H.A. insured mortgages. This requires that cities subordinate their right of reverter to the lender's mortgage lien. Wilmington's practice of granting title to the homesteader at the conclusion of the loan agreement would meet

F.H.A. requirements. In the event of a default, the agreement would be considered closed, enabling the F.H.A. to foreclose.

Because of the general availability of F.H.A. insurance, few cities have felt compelled to initiate locally funded loan guarantee programs. An exception is Oakland, California, which has funded a guarantee program for families with sufficient incomes to service rehabilitation loans, but with property having an appraised value (after rehabilitation) too low to obtain complete financing. The city guarantees that part of the loan which is in excess of the appraised value of the property.¹⁴⁸

Tax Relief

A review of program descriptions submitted to H.U.D. by cities participating in the Section 810 Demonstration has revealed that almost all feel that tax abatements or deferrals are necessary to encourage urban homesteaders to rehabilitate beyond minimum code standards. By allowing program participants to add amenities to their units, without fear of immediate tax repercussions, the relative attractiveness of central-city neighborhoods may be further enhanced.

Urban homesteading administrators have developed three basic tax abatement strategies. They are: (1) lease agreements, (2) market value assessments, and (3) direct abatements.

Lease Agreements. Due to specific prohibitions in the city charter, Baltimore, like many other municipalities, may not abate property taxes. In order to circumvent this prohibition, the city has an arrangement whereby they retain title to the property during the required three-year homesteading residency period. In effect, the property is leased to the homesteader. As the program participant does

not legally own the property until the completion of the residency period, he receives a complete tax deferral for the entire three-year period.¹⁴⁹

Boston, which labors under similar charter prohibitions, retains title during the initial year of the homesteading period. After this first year, homesteading properties are deeded to program participants and taxed in accordance with normal assessing department practices.¹⁵⁰

While lease agreements are successful in providing property tax relief, they make it difficult for urban homesteaders to secure conventional financing. Unless the homesteader has clear title to the property, a commercial lender will not accept it as security for a mortgage loan.

Market Value Assessments. Baltimore has experimented with the idea of assessing homestead properties on the basis of "market value." This value is determined by the transaction price of the last sale, one dollar.¹⁵¹ At the conclusion of the homesteading residency period, the parcel is reassessed to reflect the current value.

The legality of this practice is open to serious question. Moreover, there is nothing to prevent other property owners within the city from "selling" their properties for similarly nominal amounts. On an operational basis, the idea may be unworkable.

Direct Abatements. Wilmington, home of the first urban homesteading program, has a general tax abatement program for all city residents who improve their properties. Under this system, 50 percent of the assessed value of property improvements may be subtracted from the current assessment.

Assume, for example, that a property owner with a parcel assessed at \$20,000 added improvements assessed at \$4,000. Under the abatement program, 50 percent of the improvement, or \$2,000 (50 percent of \$4,000), would be subtracted from the current assessment of \$20,000. This would result in a new assessed value of \$18,000 (\$20,000 minus \$2,000).

This program, which in effect actually lowers the taxable value of the parcel, is intended to encourage property improvements. This lowered rate is in effect for five years.¹⁵²

In Wilmington, urban homesteaders are subject to property taxation immediately upon taking possession of their units. Because of the deteriorated condition of the properties, however, the value of the improvements generally exceeds the assessed value of the home. Thus, under the terms of the abatement program, homesteaders pay no property taxes for five years.

The potential effects of tax abatements must be carefully studied. Such methods may encourage city residents to upgrade their housing unit; but they may also severely decrease the city's source of tax revenues. This could necessitate either a general increase in the millage rate or a cutback in city services.

Philadelphia, as a result of special state enabling legislation, is able to discount tax increases due to improvements over a five-year period.¹⁵³ Under the terms of this program, homestead properties are assessed just prior to occupancy and the completion of renovation. This assessment, which due to the condition of the property is quite low, remains in effect until the next regularly scheduled assessment period. All improvements added during the rehabilitation of the property are included in the next scheduled assessment.

To further moderate the increase, all improvements are discounted over a five-year period. Thus, 20 percent of the increase is taxable during the first year and 100 percent after five years. This arrangement softens the blow to property owners, but does not completely cut off city tax revenues.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

This chapter begins by identifying the appropriate goal of urban homesteading. Conclusions regarding the administration, management and financing of urban homesteading programs will then be discussed. A series of policy and technical recommendations will be provided at the conclusion of the chapter.

Urban Homesteading Goal

Housing low and moderate income families is not an appropriate goal of urban homesteading. It has been shown that the costs of completely rehabilitating an abandoned building may approach the costs of new construction. Lower income families, even if provided with significant public subsidies, simply do not have adequate financial resources to undertake such rehabilitation projects.¹⁵⁹ At best, homesteading by such families will only succeed in transforming abandoned homes into marginal units.

The housing needs of low and moderate income families are certainly very real. These needs, however, can best be met through such programs as public housing or Section 8 rent subsidies.

The appropriate goal of urban homesteading is to assist in the economic revitalization of a designated geographic area. Homesteading contributes toward this goal by functioning as a mechanism to rehabilitate abandoned and severely deteriorated residential structures.

The rehabilitation of abandoned buildings, within the framework of a comprehensive program designed to upgrade an entire neighborhood, should eliminate unsafe residential structures, increase the supply of standard housing units, make the area more attractive to middle income families, and stabilize or improve property values.¹⁶⁰ Thus, urban homesteading should have the effect of making central-city neighborhoods more attractive to private investors. Investment and reinvestment are essential elements in any continuing neighborhood stabilization effort.

Administration

While there is disagreement over the causative agents in the phenomena of residential abandonment, there is a general consensus that the problem is rooted in the process of neighborhood decline.¹⁶¹ Urban homesteading, through the rehabilitation of abandoned buildings, offers only part of the solution.

Reversing neighborhood decline requires that public authorities develop programs to upgrade occupied buildings and public facilities within homesteading project areas. Thus, homesteading programs should be administered in such a manner that maximum coordination with other neighborhood revitalization programs is achieved.

Program experience in Baltimore and Boston has shown that effective coordination between homesteading and other revitalization programs is likely to occur when homesteading is administered by an agency with general community development responsibilities. Community development agencies contain the programmatic and technical resources necessary to operate comprehensive neighborhood revitalization programs.

Management

Urban Systems Research and Engineering, in their evaluation of the Section 810 Urban Homesteading Demonstration, cautions that F.H.A. foreclosed properties will not be a major source of homestead units in the future.¹⁶² Deteriorated rental units, abandoned as a result of neighborhood decline, will probably constitute the bulk of future homesteading inventories.

Experience has shown that housing units abandoned in declining neighborhoods represent attractive targets for vandals. Homesteading administrators, therefore, must develop procedures to protect and acquire abandoned units before they are vandalized beyond the point of economic rehabilitation.

In assembling a homesteading inventory, authorities should pay particular attention to the location of the project area. Homesteading projects are best located in neighborhoods that, because of architectural character or location, have the potential to develop into attractive and desirable living areas. Urban homesteading can be a "spark" that changes perceptions of an area and reopens the flow of investment capital necessary to completely rehabilitate and maintain an area. It is much more difficult to encourage reinvestment in neighborhoods completely surrounded by blight or undesirable land uses.

Careful attention must be given to the recruiting and education of urban homesteaders. A possible explanation for the large number of defaults that occurred under the Federal Section 235 program was the inadequacy of procedures for screening and orienting program participants. Efforts should be made to select homesteaders who are financially able to rehabilitate and maintain their properties. Training

sessions, designed to acquaint homesteaders with the responsibilities of homeownership, are also recommended.

The investment of homesteaders and neighborhood residents in general is closely tied to the condition of the neighborhood housing stock. Administrators must, therefore, develop a means of enforcing the rehabilitation and residency requirements of the homestead agreements.

Finally, the rehabilitation of homestead properties is a very complicated process. Homesteading authorities should develop procedures to assist program participants with the technical aspects of rehabilitation work.

Finance

The active participation of private financial institutions is a key element in the revitalization of a homesteading project area. However, obtaining rehabilitation financing for abandoned and severely deteriorated buildings poses special problems. This difficulty stems from the deteriorated condition of the homestead unit. If a homesteader defaults on a loan before the rehabilitation work is complete, the lending institution is left with a dilapidated shell of marginal value.

Because of poor physical condition of most abandoned units, financing a homesteading project is more closely related to financing a construction project than an existing home. In order to encourage the participation of the private lending community, it is necessary for the city to assume some of the risk attendant upon this type of financing.

Recommendations

This section will first list a series of policy recommendations

for local government officials contemplating the initiation of an urban homesteading program. Technical recommendations relating to the operation of such a program will follow.

Policy Recommendations

- (1) Urban homesteading should only be undertaken within designated neighborhood revitalization areas. The homesteading of abandoned buildings, in the absence of programs to upgrade occupied structures and public facilities, is not likely to reverse the process of neighborhood decline.
- (2) Urban homesteading should be administered as an integral part of the community development program. Community development agencies have the capacity to plan and implement coordinated programs to eradicate blight.
- (3) Middle and upper income families should be encouraged to participate in urban homesteading programs. To ensure that program participants have the financial ability to rehabilitate and properly maintain the units, there should be no upper income limits for homesteaders.
- (4) Urban homesteading should not be used as a program to house low and moderate income families. The cost of rehabilitating and properly maintaining homestead units is beyond the financial means of such families.
- (5) Public officials should make a significant financial commitment to homesteading project areas. Public funds are necessary to upgrade public facilities and encourage the rehabilitation of occupied structures. Urban homesteaders can only rehabilitate abandoned buildings.
- (6) Private financial institutions should be strongly encouraged to participate in homesteading efforts. Using limited public funds to

leverage private monies will guarantee a greater impact within project areas.

Technical Recommendations

- (1) Homesteading project areas should be physically separated from surrounding blight. Private investment, hopefully sparked by homesteading activities, is more likely to occur under such circumstances.
- (2) Routine police patrols should be utilized to identify abandoned properties. Housing code inspectors should immediately verify these reports and take measures to secure abandoned units against unlawful entry.
- (3) Homesteading project areas should be located near a city's "strengths." Examples would be: stabilized neighborhoods, the central business district, employment generators, and recreational complexes.
- (4) A computerized system, capable of quickly determining the ownership and tax status of abandoned units, should be developed.
- (5) State legislatures, which have not already done so, should pass enabling legislation which would permit municipalities to immediately seal vacant buildings and place liens on such properties for costs incurred.
- (6) Monetary fines should be levied against the owners of buildings found to be vacant and left open to casual entry.
- (7) State legislatures should follow the example of Delaware and enact special procedures which allow municipalities to take title to abandoned and/or deteriorated buildings within a maximum of 60 days.
- (8) Municipalities should develop procedures to buy abandoned properties for the amount of back taxes plus one dollar.

- (9) Local governments should retain advertising firms to develop campaigns to inform the public of homesteading programs through television, radio, and newspaper advertisements.
- (10) There should not be any residency requirements for participating in urban homesteading programs. Suburbanites should be encouraged to return to central city neighborhoods.
- (11) Homesteaders should be required to attend training sessions on property rehabilitation and the responsibilities of homeownership after they are accepted into the program. These training sessions will also help create a "sense of community" among homesteaders.
- (12) Homesteaders should be required to reside on the premises for a minimum of three years.
- (13) Renting of homestead units or any portion thereof should not be permitted during the required homesteading residency period.
- (14) The homesteading agreement should specify that failure to meet all terms and conditions of the agreement will cause the property and all improvements to revert back to the public authority.
- (15) The municipality should develop design standards to create or preserve a distinctive architectural character.
- (16) Homesteading administrators should set guidelines for rehabilitation work and closely monitor the performance of contractors.
- (17) Homesteading administrators should undertake a housing market analysis of the city before an urban homesteading program is initiated. The objective will be to determine if a significant number of families will be attracted to properties in homesteading neighborhoods and if economic revitalization is a realistic possibility.

(18) Rehabilitation and financial specialists should be retained to prepare cost estimates for the rehabilitation of all potential homestead units. Those units with rehabilitation costs exceeding projected market values should be demolished.

(19) Municipalities should only finance the rehabilitation of homestead units through revolving "construction loan" funds similar to those used in Boston and Philadelphia.

(20) Local lending institutions should be encouraged to participate in the homesteading program by providing permanent financing.

(21) Municipalities should not offer tax abatements or reduced assessments to homesteaders. Urban homesteading is an investment opportunity for financially able families. Public improvements and housing rehabilitation assistance should be sufficient to attract qualified households to the program.

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